

EXHIBIT 33

**UNITED STATES BANKRUPTCY COURT
DISTRICT OF PUERTO RICO**

In re:

THE FINANCIAL OVERSIGHT AND
MANAGEMENT BOARD FOR PUERTO
RICO,

as representative of

THE COMMONWEALTH OF PUERTO RICO,
et al.

Debtors.

PROMESA TITLE III

Case No. 17-BK-3283-LTS

(Jointly Administered)

In re:

THE FINANCIAL OVERSIGHT AND
MANAGEMENT BOARD FOR PUERTO
RICO,

as representative of

THE PUERTO RICO ELECTRIC POWER
AUTHORITY,

Debtor.

Case No. 17-BK-4780-LTS

**This Court Filing Relates Only to
PREPA and Shall be Filed Only in Case
No. 17-BK-4780-LTS and Main Docket
17-BK-3283-LTS**

EXPERT REBUTTAL REPORT OF THOMAS S. TERRY

May 15, 2023

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I. INTRODUCTION

1. I am the Chief Executive Officer of The Terry Group and I was retained as an expert in March 2023 by counsel for the Ad Hoc Group of PREPA Bondholders, Assured Guaranty Corp., Assured Guaranty Municipal Corp., and Syncora Guarantee Inc. (the “Bondholders”) concerning the Puerto Rico Electric Power Authority (“PREPA”) Pension Claim and Recovery.

2. I submit this rebuttal report in support of the Bondholders’ objections to confirmation of the Plan of Adjustment (“POA”) for PREPA based on the Disclosure Statement for the Modified Second Amended Title III Plan of Adjustment of the Puerto Rico Electric Power Authority dated March 1, 2023 (“Disclosure Statement”). I have been asked to review and analyze the amount of the Pension Claim reported in the Disclosure Statement, the amount of the Pension Recovery and the Pension Recovery Percentage reported in the Disclosure Statement, the Debtor’s Opening Expert Report and Disclosures (ECF No. 3418), the transcript of the Deposition of Sheva Levy and the Expert Declaration of Mr. José Fernandez.

3. Except as otherwise indicated, all facts set forth in this declaration are based upon my personal knowledge, my review of relevant documents and published reports, and my professional opinion. The analysis supporting my conclusions has been performed based on commonly used and widely accepted actuarial methodologies that are fully consistent with relevant U.S. Actuarial Standards of Practice.

4. If called upon to testify in this matter, I would testify competently to the facts and opinions set forth in this report. I reserve the right to supplement or revise my opinions in light of any additional information that may subsequently be made available to me, or if I am asked to perform further analysis.

II. QUALIFICATIONS

5. I am the Founder and Chief Executive Officer of The Terry Group, an actuarial and employee benefits consulting and research firm based in Chicago, Illinois.

6. I served as CEO and the top actuary at a succession of pension consulting firms since 1991: Chicago Consulting Actuaries (later named CCA Strategies); JPMorgan Compensation and Benefits Strategies; and, currently, The Terry Group. I and my firms have provided actuarial valuation and consulting services to numerous pension plan sponsors, including with respect to some of the largest, most complex pension plans in the United States.

7. I am past president (2014) of the American Academy of Actuaries, the national association for actuaries practicing in the United States. The Academy is the home of the Actuarial Standards Board, which sets standards for actuarial practice in the United States. I am also past president (2017) of the International Actuarial Association.

8. I am past vice president for pensions (2007-2009) of the American Academy of Actuaries. In that role, I also chaired the Pension Practice Council. The Council has responsibility for the Academy's pension policy work in the United States, as well as practice advancement for actuaries working in the pension field.

9. I served for five years (2008-2012) on the board of the Society of Actuaries, an education and research association that credentials actuaries and produces authoritative research on relevant actuarial topics.

10. I hold a Bachelor of Science in Math and Physics from Tufts University, and a Masters of Actuarial Science from the Graduate School of Business Administration at the University of Michigan. I am a Fellow of the Society of Actuaries, a Member of the American Academy of Actuaries, and an Enrolled Actuary.

11. Further details on my qualifications are included in my *curriculum vitae*, attached as Appendix A, which includes a list of expert testimony I have provided in the previous ten years.

12. I am being compensated for my work on this case at my hourly rate of \$950. I have been assisted on this matter by Terry Group staff members whose hourly rates range from \$395 to \$700. My charges are not dependent upon the substance of my opinions or testimony or the outcome of this matter.

III. SUMMARY OF ANALYSIS AND OPINIONS

A. Basis for My Actuarial Analysis

13. I and my team performed our actuarial analysis based on the information we have available. This information is included in Appendix B, Materials Considered in the Preparation of this Report. As indicated elsewhere in my report, I reserve the right to amend or supplement our analysis based on additional information that may become available. In particular, I have requested models, data and other information that would be helpful in my analysis that I have not received. Additionally, questions were asked in deposition to the Oversight Board's actuary, Ms. Sheva Levy, which Ms. Levy could not provide an answer or could provide only muddled answers. If new information becomes available, it is possible that some results or conclusions could change in either direction.

14. Where data or information was insufficient or entirely lacking, I made reasonable assumptions consistent with Actuarial Standard of Practice No. 23, Data Quality, and also Actuarial Standard of Practice No. 17, Expert Testimony by Actuaries.

15. While the Petition Date in this bankruptcy is July 2, 2017, for convenience, I have performed my actuarial analysis using a "claim valuation date" of June 30, 2017 – the "as of" date for pension asset reporting. This is the same approach taken by the Oversight Board¹ in their analysis of the Pension Claim.

16. The appendices include documentation of my actuarial analysis, including documentation and rationale for all actuarial assumptions to the extent not fully described in the body of my report.

17. My report and the actuarial conclusions herein, constitute a statement of actuarial opinion that I am qualified to make according to the U.S. Qualification Standards of the American Academy of Actuaries.

B. Summary of My Opinions

18. There are two main values relevant to determining the Recovery Percentage for the Pension Claim, as stated in the Disclosure Statement. The first is the Pension Claim itself, which is "the estimated present value of cash payments to be made by PREPA to the PREPA ERS under the PREPA ERS Regulations as of the Petition Date."² In other words, it is money that would be owed to PREPA ERS under the current laws and regulations. The second is the Pension Recovery. The Pension Recovery is the money that will be paid to the PREPA ERS under the Plan of Adjustment, after certain reforms are made to the PREPA ERS as described in the Plan of Adjustment.

19. In my expert opinion, the values estimated and disclosed by the Oversight Board are unreliable and fail to accurately capture the Pension Claim and the Pension Recovery. This

¹ The Financial Oversight and Management Board for Puerto Rico

² Disclosure Statement for Modified Second Amended Title III Plan of Adjustment, page 29.

report explains why these estimated values are unreliable (in Section IV), why the Pension Claim is overstated (in Section V), and why the Recovery Ratio is understated (in Section VI). Additionally, I explain why Sistema de Retiro de los Empleados de la Autoridad de Energia Electrica's (SREAEE³) erroneously inflates the Pension Claim (in Section VII). I provide a brief preview of my conclusions here.

20. **First Opinion.** The Oversight Board's Actuary refrains from assessing the reasonableness of the key assumptions and methods that underpin the Pension Claim, the Pension Recovery and the Recovery Percentage, thus calling into question their reliability.

21. **Second Opinion.** The reported Pension Claim of \$3.955 billion is overstated by approximately \$1.339 billion. Based on my calculations, the correct computation of the claim amount is \$2.616 billion. The Oversight Board has overstated the Pension Claim. The Board inappropriately included benefits that vest *after the Petition date*, included a "lag" in calculating funding payments which results in overfunding the plan, applied an incorrect discount rate as to future payments, and incorrectly assumed a too-low rate of return for Pension Assets.

22. In bankruptcy, the size of a pension claim can properly be thought of as a hypothetical "pot of money" such that, if it was provided to the pension system today, it would result in the pension system begin able to fully pay its obligations. The "pot of money" for PREPA ERS, when the Oversight Board's erroneous assumptions are corrected, is \$2.616 billion, meaning the claim is overstated by 51%.

23. **Third Opinion.** The Approximate Recovery of 86% reported in the Disclosure Statement⁴ is understated. Some of the same issues that plague the calculation of the Pension Claim are present in the Oversight Board's calculation of the Pension Recovery, resulting in a Recovery Percentage that is more generous than the Oversight Board predicts. I estimate that the actual Recovery Percentage proposed by the POA and Disclosure Statement is between 89% and 95%. If the Recovery Percentage was actually 86%, the recovery to the pensions would be \$2.250 billion.

24. **Fourth Opinion.** Finally, below, I also respond to the report of Mr. Jose Fernandez submitted on behalf of the SREAEE. Mr. Fernandez significantly overstates the Pension Claim due to numerous issues including (among others) the failure to account for \$595 million in pension funding at his chosen measurement date. His faulty calculations on the size of the Claim should not be relied upon.

³ For sake of clarity I will refer to the party representing the Pension System as SREAEE. I will refer to the Pension System itself as PREPA ERS.

⁴ Disclosure Statement for Modified Second Amended Title III Plan of Adjustment, page 29.

IV. THE OVERSIGHT BOARD’S ACTUARY REFRAINS FROM ASSESSING THE REASONABLENESS OF THE ASSUMPTIONS AND METHODS THAT UNDERPIN THE PENSION CLAIM, THE PENSION RECOVERY, AND THE RECOVERY PERCENTAGE, THUS CALLING INTO QUESTION THEIR RELIABILITY

A. The reliability of actuarial calculations is inextricably linked to an actuary’s certification that they are reasonable.

25. The American Academy of Actuaries,⁵ through its Code of Professional Conduct, issues “Qualification Standards for Actuaries issuing Statements of Actuarial Opinion in the United States.”⁶ These standards define a “Statement of Actuarial Opinion” as an opinion expressed by an actuary about an actuarial calculation upon which others rely:

“... a Statement of Actuarial Opinion” (SAO) is an opinion expressed by an actuary who is subject to the *Code of Professional Conduct* by virtue of membership in a U.S.-based actuarial organization, where such opinion is expressed in the course of performing Actuarial Services and intended by that actuary to be relied upon by the person or organization to which the opinion is addressed.⁷

26. The Oversight Board has put forth a multibillion dollar Pension Claim and a multibillion-dollar Pension Recovery that are based on complex pension actuarial calculations. These calculations must be accompanied by a Statement of Actuarial Opinion in order to be considered reliable.

27. Reasonability and reliability are inextricably linked and are central elements of the profession’s Actuarial Standards of Practice (“ASOPs”). Thus, values (e.g., the value of a pension claim or of a pension recovery in a bankruptcy) derived from actuarial calculations are deemed reliable if the underlying assumptions, methods and models are deemed reasonable by a Qualified Actuary.

B. The Oversight Board’s Actuary Sheva Levy refrains from attesting to the reasonableness of key actuarial assumptions and methods, thus calling into question the reliability of the Oversight Board’s calculations of the Pension Claim and the Pension Recovery.

28. I have seen no evidence of support by the Oversight Board or Ms. Levy for the reasonableness of the assumptions or methods used to calculate the Pension Claim or the Recovery amount, nor any rationale for the selection of those assumptions.

⁵ The American Academy of Actuaries (the Academy) is the national association for actuaries practicing in the United States. The Academy is the home of the Actuarial Standards Board (ASB), which sets standards for actuarial practice in the United States.

⁶ Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States, Effective January 1, 2022.

⁷ Ibid, page 1.

29. Ms. Levy developed the \$3.955 billion Pension Claim⁸ amount that was reported in the Disclosure Statement.⁹

30. Despite being involved with the Oversight Board since 2019,¹⁰ Ms. Levy acknowledges in her work product and in her deposition that she did not evaluate any of the assumptions or methods for reasonableness.

31. Ms. Levy testified that all assumptions used in her work product were prescribed by the Oversight Board and were not assessed for reasonableness. The following disclaimer can be found in the work product for the \$3.955 billion claim – a document that that Ms. Levy testified was “wholly produced”¹¹ by her and her team:

“These assumptions were discussed with and were prescribed by the Board for the purposes of this analysis. Assessing the reasonableness of these assumptions would have required performing a substantial amount of additional work beyond the scope of the assignment.”¹²

32. As Ms. Levy testified in her deposition, she is not providing any actuarial opinion whatsoever on the appropriateness of the actuarial assumptions, including the highly relevant expected return on assets of 5.75%.¹³

Question: So, for example, the discount rate at the top of the page, actuarially determines contribution ADC 5.75 percent, that was a rate that was prescribed by the board?

Answer: Yes.

Question: And that was a rate that you did not take steps to independently determine the reasonableness of?

Answer: Correct.

33. Ms. Levy’s work product also documents the Oversight Board’s use of a present value discount rate of 3.58% -- used in part to determine the Pension Claim and the Pension Recovery. In the following disclaimer, Ms. Levy acknowledges that this assumption is not her own assumption, rather it was prescribed by the Oversight Board. Further, this disclaimer includes an implicit admission that there could be a *significant difference* between the calculated values of the Pension Claim and the Pension Recovery if other assumptions were used – including, presumably, assumptions not prescribed by the Oversight Board but deemed reasonable by a qualified actuary:

⁸ Levy deposition, 46:8-17

⁹ Levy deposition, 49:5-15]

¹⁰ Levy deposition, 11:8-10

¹¹ Levy deposition, 46:8-17

¹² PREPA Pension Claim and Recovery January 27, 2023 and Levy deposition, 50:21-51:4

¹³ Levy deposition, 53:13-22

“NOTE: The above approach was directed by the Board under the advice of counsel. Changes to this approach could significantly impact the amount of the claim and recovery shown”¹⁴

34. Further, as Ms. Levy testified in her deposition, she is not providing any actuarial opinion whatsoever on whether or not it is appropriate to use the Entry Age Normal actuarial cost method¹⁵ to calculate the value of the Claim.¹⁶

Question: You are not giving an opinion on the appropriateness of using entry age normal as the actuarial funding method; right?

Answer: Correct.

35. Refraining from rendering reasonableness opinions or from even undertaking a reasonableness assessment of relevant assumptions and methods, despite the actuary’s multiyear engagement with the Oversight Board, calls into question the reliability of the Oversight Board’s actuarial calculations of the Pension Claim and Recovery.

C. My Report is a Statement of Actuarial Opinion that can be relied upon.

36. The estimation of the Pension Claim and the Pension Recovery amount are actuarial calculations. These calculations demand a careful understanding of pension plans and the principles of pension finance, and involve several important actuarial considerations.

37. I have considered, and attest to, the reasonableness of the assumptions and methods used in my actuarial calculations. Where data was not available, I made efforts to adjust available data with reasonable proxies.

38. Documentation of my actuarial calculations and all relevant assumptions are included in the appendices to this report.

39. My work has been conducted in accordance with the Actuarial Standards of Practice (ASOPs), and I list the relevant ASOPs I considered in the Appendix.

40. I meet the Qualification Standards of the American Academy of Actuaries to render the various opinions included in my report.

¹⁴ PREPA Pension Claim and Recovery January 27, 2023, Appendix E.

¹⁵ I address the relevance of the Entry Age Normal actuarial cost method later in my report.

¹⁶ Levy deposition, 106:15 – 19

Used for long term funding decisions for an ongoing plan	Used for plan terminations, bankruptcy claims, and other point-in-time measures ²⁰
Values what needs to be in the plan at retirement	Values what needs to be in the plan today for what has already been earned
Going concern perspective	“Up to now” perspective

51. An example of a projected benefit actuarial cost method is the entry age normal method. Using this method, an actuary projects all future benefits, including future service and pay, and allocates the value of those future benefits across all years, past and future. At any point in time, the amount attributable to past versus future service is an allocation. Allocation merely reflects rules defined by the cost method, not necessarily the benefits the participants have actually earned. Different allocation methods result in differences between what is allocated to the past and to the future.

52. An example of an accrued benefit actuarial cost method is the unit credit method, which relies on actual accrued benefits as of a point in time, not an allocation method which relies on employees’ ultimate benefits at some future retirement date. The unit credit method only includes the vested portion of each individual’s benefit.

53. The unit credit actuarial cost method is, in my opinion, the appropriate method to use to measure a pension claim in a bankruptcy in which we are not trying to value future benefits, but only the already-accrued right to payment. It is clear when using the unit credit method that the accrued benefit value includes only vested benefits and similarly, does not include non-vested benefits.

Entry age normal method	Unit credit method
A projected benefit actuarial cost method	An accrued benefit actuarial cost method
Reliant on many assumptions about future pay and service	Reliant only on past pay and service determined at a point in time

54. ASOP No. 4, Measuring Pension Obligations and Determining Pension Plan Costs or Contributions, is the definitive practice standard for an actuary to measure pension obligations. A key consideration is the purpose of the measurement.²¹

55. The reason the entry age normal method is inappropriate for measuring a pension claim in bankruptcy is that its calculations are dependent upon both benefits that are vested and benefits that are non-vested. Specifically, the liability calculated under the entry age normal method will always include certain benefits based on future service that has not been performed, benefits based on future compensation that has not been earned, and benefits to which employees are not yet eligible because they are not yet vested. In short, in this case the liability at the

²⁰ In a similar situation where a private sector employer declares bankruptcy and the Pension Benefit Guaranty Corporation (PBGC) takes over an underfunded pension plan, PBGC only guarantees nonforfeitable benefits (i.e., vested accrued benefits) as of the bankruptcy filing date (see 29 CFR 4022.3 and 29 CFR 4022.4). The valuation of vested accrued benefits is done using the unit credit actuarial cost method.

²¹ Actuarial Standard of Practice No. 4, Measuring Pension Obligations and Determining Pension Plan Costs or Contributions, Section 3.3.

petition date is a function of the employee pay and service through *all years* after the petition date. Individuals are only valued to the extent that they have claim to a pension on the petition date.

56. Where projections of future pay and service are irrelevant, as in a bankruptcy claim, the actuary should use an accrued benefit actuarial cost method, such as the unit credit method.

57. The overstatement in the Disclosure Statement of the Pension Claim caused by inappropriately including non-vested benefits and by the inappropriate use of the entry age normal actuarial cost method is \$407 million. Details are provided in Appendix D.

Ms. Levy Acknowledges Employees Hired after Petition Date Add to Claim

58. The deposition testimony of Ms. Levy confirmed that in calculating the Pension Claim, the Oversight Board improperly included future salary, future service, and future hires, thus inflating the Pension Claim.

59. For example, Ms. Levy acknowledges the Actuarially Determined Contributions (“ADCs”) found in Column A of the “PREPA Pension Claim and Recovery” Document,²² which themselves are the basis of the calculation of the \$3.955b Claim,²³ include employees hired after the petition date. As an example, Ms. Levy was asked about her calculation of the 2023 ADC of \$253.1 million.²⁴

Question: So for your calculation for 2023 of 253.1 million, that presumes a new hire post July 1, 2017 as well; right?

Answer: Yes.

Ms. Levy Acknowledges Additional Salary and Service Beyond Measurement Date Adds to Claim.

60. When asked about her calculation for 2024, Ms. Levy acknowledged that part of the \$258.0 million²⁵ ADC is attributable to future salary increases that both occur after 2024 and occur long after the Claim date of June 30, 2017.²⁶

Question: And likewise, what you did for 2024 and on, it is likewise attributable part of -- part of the ADC is attributable to the future salary increases that are presumed to occur?

Answer: Yes.

²² PREPA Pension Claim and Recovery January 27, 2023, page 2.

²³ Ibid.

²⁴ Levy deposition, 115:24-116:4.

²⁵ PREPA Pension POA Savings Estimates February 8, 2023 with exhibit 6 appended April 26, 2023, Exhibit 2.

²⁶ Levy deposition, 115:12-17.

66. The pattern of actual expenses observed in recent years shows that a reasonable and appropriate expense assumption is 0.1%, not 3.0%.

68. Ms. Levy states that she is aware that the PayGo+ system of the Oversight Board's pension reform proposal would be more expensive to administer than the existing PREPA ERS program (the prior program being referenced below).³¹

Answer: Yes.

Answer: The PayGo Plus system would involve reviewing the benefits paid by PREPA ERS to confirm that they're consistent with the plan of adjustment to be then eligible for reimbursement. The PayGo Plus structure would require some estimate of the contributions needed under the plan of adjustment which are different from how the contributions are currently determined. And since this is a separate trust, those assets would need to be managed in addition to the assets

³² Ibid, 133:9-24.

-- the costs of PREPA ERS managing their own assets. Those are the costs that come to mind that don't currently exist.

70. Ms. Levy waffled as to whether this that this additional fee structure (3% of all benefit payments made) is actually being assessed in the determination of the Pension Claim.³³ In one case, Ms. Levy says the expenses impact the Pension Claim.

Question: Is the 3 percent administrative fee load included within the computations included in Column A?

Answer: To my knowledge, yes.

Question: And it's on an annual basis; right?

Answer: Yes.

Question: And that's for each year from 2018 through 2060?

Answer: Yes.

71. But in the case of the exchange below, Ms. Levy claims there are no explicit expenses whatsoever in the Pension Claim calculation (not even the 0.10% expense assumption that was proposed by the Oversight Board).³⁴

Question: Is there any expense allowance used in the Column A calculation?

Answer: Expect[ed] the return assets assumption is assumed to have been adjusted for expenses.

Question: So the return is expected to be net of the expenses?

Answer: That's our understanding of how Cavanaugh Macdonald developed that assumption.

72. This 3.0% expense assumption (if it is indeed present in the Pension Claim) would be a wholly unnecessary inclusion of the administrative expenses associated with the PayGo+ funding vehicle in the determination of Pension Claim where the PayGo+ system does not exist.

73. Except for the above testimony, the documentation and testimony I have reviewed provide no alternative administrative expense load, and so I have assumed 0.1% of benefit payments as the administrative expense load for the purposes of determining Pension Claim. However, if additional information comes to light, it could cause me to adjust my computations. I have requested the underlying models to confirm this but have not received them.

³³ Ibid, 126:15-24.

³⁴ PREPA Pension Inputs Discussion January 5, 2023, page 3.

74. I reserve the right to amend this portion of my report upon the discovery of any data or additional information that is able to resolve the inconsistency between the deposition testimony noted above and the documentation I have been provided.

D. \$87 million of the overstatement is attributable to the inappropriate inclusion of extra amortization payments due to a funding lag.

75. The Disclosure Statement's Pension Claim is based on a flawed projection of employer contributions. Under the Oversight Board's figures, the PREPA ERS would be projected to be fully funded by some time in 2040, however the Oversight Board does not stop contributions as of that date. Instead, the flawed approach upon which the Pension Claim is based builds in an overstated contribution for 2040 and a completely unnecessary contribution for 2041.

76. The overstatement occurs because the flawed projection fails to adjust for the fact that the normal PREPA process for funding the plan has a built-in delay. When PREPA's actuaries calculate an ADC, that ADC amount isn't actually contributed right away. Instead, it is contributed in the fiscal year two years later than the year for which it was calculated – effectively ignoring any contributions made in the interim.

77. In the normal course of “going concern” pension plan financing—that is, a pension plan that is assumed to exist indefinitely—this nuance is not significant. However, for purposes of measuring the Pension Claim, which anticipates a single, finite amortization payment period that ends in 2039-2040, it *is* significant. The “going concern” modeling at the end of the amortization period can lead to tacking on additional contributions that simply are not needed to fully amortize the liability – and the result is a Pension Claim that inappropriately anticipates “over-funding” the pension plan.

78. In my opinion, it is inappropriate for the Pension Claim to anticipate “overfunding” the plan at the end of the amortization period. The overstatement of the Pension Claim in the Disclosure Statement caused by this modeling flaw is \$87 million. Details are provided in Appendix D.

79. Testifying in her deposition, Ms. Levy appears to agree in principle that it is not appropriate to overfund the pension plan in this context, yet in her calculations that appears to be exactly what she has done.

80. Ms. Levy agrees that the objective in funding the claim amount is to target a 100% funded ratio.³⁵

Question: And the objective for the claim amount calculation is not to be overfunded; it's to be 100 percent; right?

Answer: Yes.

³⁵ Levy deposition, 146:16-20.

E. \$546 million of the overstatement is attributable to the use of an inappropriate cash flow discount rate.

Background on the Oversight Board's selection of the 3.58% discount rate

86. A discount rate of 3.58% is used in the Oversight Board's claim and recovery for the purpose of calculating the present value of cash flows occurring in the future. With respect to the determination of the Pension Claim, this discount rate applies to the present value of the future ADCs. With respect to the determination of the Pension Recovery, this discount rate applies to the present value of the future PayGo+ reimbursements to PREPA ERS. The purpose of calculating the present values using the discount rate is to provide comparability between these two different values – including the calculation of a Pension Recovery Percentage.

87. Like all actuarial assumptions used in the Oversight Board's work, Ms. Levy claims this discount rate was prescribed by the Board.⁴¹ The same document⁴² states that "approach was directed by the Board under the advice of counsel." Nowhere in this document is there any indication that Ms. Levy has assessed this assumption for reasonableness as part of her analysis.

88. In choosing a discount rate, a key consideration for the actuary is the purpose or intended use of the calculations to be performed using the rate.

89. Here, a document entitled "PREPA Pension Inputs Discussion," dated January 5, 2023 ("PREPA Pension Inputs document")⁴³ provides a variety of considerations for the selection of this 3.58% rate, including a reference to the Society of Actuaries Report of the Blue Ribbon Panel on Public Pension Plan Funding ("Blue Ribbon Report"). In her deposition, Ms. Levy stated that the 3.58 rate was based on the Blue Ribbon Report:

Question: Do you have an understanding of why a 3.58 discount rate was used for purposes of the claim recovery calculations?

Answer: My understanding is the board wanted to use a rate that was consistent with the description in the bullet that begins, "The Society of Actuaries' report of the blue ribbon panel."

90. In her deposition, Ms. Levy confirms that she did not assess this 3.58% discount rate as being reasonable:⁴⁴

Question: And EY didn't vet or determine that that choice [3.58%] was reasonable or unreasonable; right?

Answer: I did not.

⁴¹ PREPA Pension Claim and Recovery January 27, 2023, Appendix A.

⁴² Ibid, Appendix E.

⁴³ PREPA Pension Inputs Discussion January 5, 2023, page 4.

⁴⁴ Levy deposition, 163:5-8.

Ms. Levy's use of the Blue Ribbon Report was a faulty application of the report's recommendation.

91. This represents a faulty application of the Blue Ribbon Report's recommendation to the task at hand, which was to choose a discount rate for the purposes of calculating the Claim and Recovery amounts. The Blue Ribbon Report instead offered a recommendation for selecting a *funding* discount rate.

92. Ms. Levy, in her January 5, 2023 Pension Inputs document, borrows language from the Blue Ribbon Report in an apparent attempt to set forth the Oversight Board's rationale for prescribing this 3.58%.⁴⁵ That passage from the Blue Ribbon Report was discussed during Ms. Levy's deposition:

"However, the Panel believes that the rate of return assumption should be based primarily on the current risk-free rate (e.g., the U.S. Treasury yield curve) plus explicit risk premia or on other similar forward-looking techniques."⁴⁶

93. But this quote omits relevant context for which the Blue Ribbon Report offered this recommendation. Directly preceding the passage⁴⁷ that the Oversight Board relied upon is the following sentence which makes it clear that the Blue Ribbon Report's recommendation was for funding calculations (emphasis added):

"Finally, the Panel **makes specific recommendations on methods and assumptions used by plans for the purposes of funding calculations;** specifically, discount rates, amortization periods, asset smoothing, and the use of direct rate smoothing or alternative funding methods...."⁴⁸

94. The 3.58% interest rate is used in the context of comparing different pension-related cash flows in the Plan of Adjustment, not in the context of funding calculations.

The Actuarial Standards of Practice issued by the Actuarial Standards Board are the only authoritative guidance for actuarial calculations.

95. The Blue Ribbon Report is not authoritative guidance for actuaries. The Actuarial Standards Board considered the recommendations in the Blue Ribbon Report, but the report's recommendations ultimately were not adopted nor incorporated into the ASOPs.

The Oversight Board's selection of the 3.58% interest rate is inconsistent with its own rate of PREPA's borrowing costs in 2017.

96. The PREPA Pension Inputs document reflected various other considerations, such as the municipal bond index, Puerto Rico's borrowing cost, GASB's accounting interest rates or the "explicit risk premia." One of those potential inputs – the 20-year municipal bond index on

⁴⁵ PREPA Pension Inputs Discussion, January 5, 2023, page 4.

⁴⁶ Levy deposition, 154:22 – 155:16

⁴⁷ Report of the Blue Ribbon Panel on Public Pension Plan Funding, February 2014, page 8

⁴⁸ Ibid.

June 30, 2017 – coincides with the 3.58% discount rate chosen by the Oversight Board. But when asked in her deposition about these other possible inputs Ms. Levy said that she neither performed any analyses based on these considerations nor had knowledge of how these considerations were applied by the Oversight Board in the selection of the 3.58% interest rate.⁴⁹

97. Nevertheless, the PREPA Pension Inputs document states that “municipal bond rates offer a reasonable proxy at the cost of funds for Puerto Rico and reasonably reflect market available rates for settlement of the obligation.”⁵⁰ This, too, was not analyzed by Ms. Levy, who testified that she did not examine the actual “cost of funds for Puerto Rico” (or PREPA) in 2017.⁵¹ Nor did Ms. Levy examine the interest rate of Series-B bonds contemplated under PREPA’s Plan of Adjustment (which at least would reflect some measure of actual cost of funds to PREPA as of 2023).⁵² And, notably, the Oversight Board’s own analysis in the Estimation Proceeding reflects the selection of 6.5% discount rate for the cost of capital in 2017 – a far cry from the 3.58% used by the Oversight Board in its pension analysis.⁵³

5.45% is the most appropriate rate for comparing the values of different pension-related cash flows in the Plan of Adjustment.

98. In my view, the most appropriate interest rate for the purpose of comparing the values of different pension-related cash flows in the Plan of Adjustment is 5.45%.

99. The cost of funds interest rate is well established in finance for managing and allocating resources to different uses and is mentioned as a consideration in the Oversight Board’s PREPA Pension Inputs document.⁵⁴

100. Here, the interest rate used by the Oversight Board in Series B Bonds – as well as in other calculations in PREPA’s Plan of Adjustment – is 6.00%, which was determined in 2023. Using that same interest rate would ensure comparability and not cause one present value to be larger than other present values merely because different interest rates are selected.

101. However, the 6.00% should be adjusted to account for the fact that the calculations are being done as of 2017, not as of 2023. In particular, according to Thomson Reuters Municipal Market Data, BAA municipal yields (at a 12-year duration) in 2017 were 0.55% lower than in 2023.⁵⁵ Thus, we decrease the interest rate from 6.00% to 5.45%.

⁴⁹ Levy deposition, 155–169.

⁵⁰ PREPA Pension Inputs Discussion, January 5, 2023, page 3 - 4.

⁵¹ Levy deposition, 158-160.

⁵² Ibid, 160.

⁵³ See Report of David Plastino, dated May 5, 2023, paragraph 50.

⁵⁴ PREPA Pension Inputs Discussion January 5, 2023, page ____.

⁵⁵ The Thomson Reuters Municipal Market Data (MMD) for BAA rated bonds at a 12-year duration showed a yield of 3.72% in March 1, 2023, and 3.17% on July 1, 2017, for a decrease of 0.55%. I determined the duration of the Pension Claim to be approximately 12 years.

VI. THE PLAN PROVIDES A RECOVERY OF BETWEEN 89% AND 95% OF THE CLAIM AMOUNT

A. The Pension Recovery Percentage in the Disclosure Statement is understated.

112. In my opinion, the Disclosure Statement's Pension Recovery Percentage of 86% is significantly understated. My calculation of the Recovery Percentage is between 89% and 95%.

113. The understatement is attributable to these factors:

- The *Pension Claim* differs from the overstated Pension Claim reported in the Disclosure Statement, as I described in the preceding section of this report.
- The correctly computed *value of the Pension Recovery* differs from the overstated value reported in the Disclosure Statement, as I describe below in this section of my report.
- I further describe and quantify the overstatement of the Pension Recovery in the following section. In addition, I consider the discounting of the year-by-year Pension Recovery at two different discount rates.

B. The various Recovery Ratios calculated by the Oversight Board and shown in the Disclosure Statement contain flaws and inconsistencies.

114. The 86% "approximate recovery" percentage⁶⁰ shown in the Disclosure Statement is based on a flawed calculation, as I will explain below.

115. The Pension Recovery Percentage is the ratio of the amount of the Pension Recovery to the Pension Claim – in other words, the portion of the Pension Claim that is to be recovered. Pension benefits are typically both funded by contributions over a period of years and paid out to participants over a period of years. Thus, both Pension Claim and the Recovery amounts are each a single actuarially calculated present value, as of a specific point of time, covering the pension benefits to be funded and paid over a number of years.

116. The actuarially calculated present value (both for the Pension Claim and for the Pension Recovery) is essentially, in layman's terms, simply the benefits to be funded and paid over a period of years "collapsed" into a single value.

117. It stands to reason that when comparing the amount to be recovered within the amount of the Pension Claim, the two periods of years over which the pensions are funded (i.e., the Pension Claim) and paid out (i.e., the Pension Recovery) should be the same. However, in the case of the 86% shown in the Disclosure Statement, the period of years used in the recovery amount is not the same as the period of years used in the claim amount.

⁶⁰ Ibid, page 29.

118. The Pension Recovery Percentage of 86% in the Disclosure Statement appears to be calculated based on the Pension Claim in the Disclosure Statement of \$3.955 billion⁶¹ and the adjusted Recovery of \$3.412 billion shown later in the Disclosure Statement.⁶²

119. The pension exhibit dated April 26, 2023 reveals a flaw in the computation of the 86% Recovery Ratio.⁶³ The Pension Claim included contributions from fiscal years 2018 – 2053 while the Pension Recovery was only given credit for contributions made from fiscal years 2024 – 2053. This results in shortchanging the dollar amount of the Oversight Board's Recovery by \$348.6m – the total contributions made to PREPA ERS during fiscal years 2018 – 2023⁶⁴.

120. I also note that this 86% Recovery Ratio was not a figure that Ms. Levy had been aware of, as evidenced by this exchange in her deposition.⁶⁵

Question: Let's go back to page 28 for a moment. Are you aware of any document that reflects how the 86 percent recovery was calculated?

Answer: No.

The Oversight Board has stated at least one other Recovery Percentage that conflicts with and is not consistent with the 86% shown in the Disclosure Statement and which thereby creates confusion.

121. The Oversight Board's PREPA Pension Claim and Recovery document dated January 27, 2023 details the calculation of a Pension Recovery Percentage that differs from the Recovery Percentage in the Disclosure Statement. The Recovery Percentage in that document is 92%.

122. Ms. Levy, testified in her deposition that the January 27 document containing the 92% Recovery percentage \$3,955.7 million Claim was created in whole by her and her team.⁶⁶ Levy further confirmed that she calculated the \$3.955 billion Pension Claim.^{67,68}

123. Levy stated that the most recent Recovery amount she had calculated was not the \$3,412 million shown in the Disclosure Statement, but rather \$3,626.1 million. Using this recovery amount results in a Recovery Ratio of 92%.

Question: So this 3.626 recovery, is that correct?

⁶¹ Ibid.

⁶² Ibid, page 81.

⁶³ PREPA Pension POA Savings Estimates February 8, 2023 with exhibit 6 appended April 26, 2023

⁶⁴ The present value would be \$316m if the OSB's discount rate of 3.58% were applied to the payment stream.

⁶⁵ Levy deposition, 43:12-17

⁶⁶ Ibid, 46:8-17

⁶⁷ Ibid, 40:25-41:6.

⁶⁸ I note that Levy's Claim of \$3,955.7m rounds to \$3,956m which is slightly different than the Claim shown in the Disclosure Statement, but for purposes of my report I am assuming that these are the same figures based on Levy's deposition.

Answer: That is the most recent amount that I estimated based on the most recent instructions given to me related to the recovery.

Question: And you see there, it says "recovery percentage, 92 percent"?

Answer: Yes.

124. Ms. Levy's Recovery Percentage is the ratio of the Recovery payments (from fiscal years 2018 – 2059) to the Claim payments (from the same fiscal years, 2018 – 2059).

The Implied 94% Recovery percentage

125. The combination of Pension Claim and Pension Recovery percentage in the most recent Disclosure Statement can also be used to create a 94% Pension Recovery percentage. This is computed by using the \$3.412 billion Pension Recovery (as described above) and yet a different Pension Claim amount of \$3.622 billion.⁶⁹

126. The Pension Claim of \$3.622 billion is obtained by removing contributions from 2018 to 2023, as described in footnote 41 of the most recent Disclosure Statement. In this calculation both the Claim and the Recovery percentage are only accounting for payments from fiscal years 2024 to 2053.⁷⁰ This removed the flaw of using different years for Pension Claim and Pension Recovery. The result is that the Pension Recovery Percentage increases from 86% to 94%.

C. The Pension Recovery amount reported in the Disclosure Statement is overstated.⁷¹

The Pension Recovery amount reported in the Disclosure Statement inappropriately includes benefits that were not vested as of the claim valuation date.

127. Because the proper determination of the Pension Claim should include only benefits that are vested as of the claim valuation date, the same should be true of the Pension Recovery amount.

128. The Pension Recovery amount reported in the Disclosure Statement also includes both benefits that were earned by employees after June 30, 2017 as well as employees that were hired after June 30, 2017. Thus, to be consistent and to assure an "apples-to-apples" comparison, I have removed from my calculation of the Pension Recovery amount any benefits derived from the continued accrual of pension benefits after June 30, 2017 or from employees hired after June 30, 2017.

⁶⁹ Disclosure Statement for Modified Second Amended Title III Plan of Adjustment, page 29, footnote 41.

⁷⁰ PREPA Pension POA Savings Estimates February 8, 2023 with exhibit 6 appended April 26, 2023, page 2.

⁷¹ In fact, the March 1, 2023 Disclosure Statement provides no detail on the precise amount of the Pension Recovery. However, the preliminary Disclosure Statement dated January 27, 2023 does include such detail. It is this January 27, 2023 detail on which I rely for purposes of my analysis. My year-by-year recalculation of the Pension Recovery amount reflecting the two identified corrections is shown in Appendix F.

The Pension Claim recovery amount reported in the Disclosure Statement inappropriately includes an unreasonable allowance for expenses.

129. Just as I corrected for the unreasonably high “load” of 3% applied to the benefits and liabilities for purposes of calculating a reasonable value for the Pension Claim, the same correction should be made with respect to the Pension Claim recovery amount. Thus, to be consistent and to assure an “apples-to-apples” comparison, I have removed from my calculation of the Pension Claim recovery amount the effect of this unreasonable 3% expense “load” and replaced it with a reasonable “load” of 0.2% to recognize the additional costs of running the new PayGo+ trust. This still allows for *some* of the increase predicted by Ms. Levy, but not the 3,000% increase recommended by the Board.

The Pension Claim recovery amount shown in the Disclosure Statement fails to account for the investment return on the participant loans.

130. Under PREPA ERS individuals could take out loans with their pensions as collateral. These loans would then be paid back to PREPA ERS with interest. A significant amount of these loans are still outstanding, and will be paid back.

131. The pension plan has outstanding loans to participants in the amount of \$156 million.⁷² The annual repayments of these loans impact the recovery.

132. Specifically, the Recovery anticipates that the “Assumed illiquid balance of \$156 million in loans at July 1, 2023 remain, decreasing by 5% per year”.⁷³ The repayment of the loans are assumed to flow into the PREPA ERS trust and reduce the amounts needed in the PayGo+ trust to fund the current year’s benefit payments.⁷⁴

133. However, the participant loans in the amount of \$156 million are not assumed to earn any interest.⁷⁵ The lack of an interest return assumption on the repayment of participant loans overstates the amounts needed to fund the PayGo+ trust.

134. In my analysis, I calculated adjusted cash flows into the PREPA ERS trust appropriately reflecting interest on the loan repayment amounts. For my calculations I assumed a rate of interest based on documentation of the reported returns for these funds.

⁷² PREPA Pension POA Savings Estimates February 8, 2023 with exhibit 6 appended April 26, 2023, Appendix B.

⁷³ Ibid.

⁷⁴ Levy deposition, 187:7-15.

⁷⁵ Ibid, 196:2-9

135. The illiquid balance is known as the “Internally Managed Portfolio” within the 2022 Fiscal Plan⁷⁶. The Internally Managed funds have a reported return of 7.07% for the 10 years ending June 30, 2017⁷⁷ and 6.24% for the period of July 1, 2017 to June 30, 2022.⁷⁸

136. Given this data, in my recovery calculations I assume a return of 6.24% for the illiquid balance of \$156 million as of June 30, 2023. I increase the maturation assumption⁷⁹ from 5% to 10.58%⁸⁰ to account for the annual growth in the accounts. Under this new loan maturation assumption, the outstanding principle remains constant at the end of each year.⁸¹ See Appendix G for more detail.

137. As a result of factoring in investment return on the loan repayments, the amounts available in the PREPA ERS are increased each year, this reducing the amounts needed for the PayGo+ trust. As an example, in fiscal year 2024 this increases the amounts available to PREPA ERS by \$9.7 million, and this \$9.7 million in turn reduces the amounts needed to fund the associated PayGo+ trust by \$9.7 million.

138. Recognizing the investment return on participant loan repayments, I estimate that this decreases the amount PREPA needs to fund PayGo+. This has a value of \$85 million when such investment return is discounted using the Oversight Board’s prescribed rate of 3.58%. See Appendix G of this report for more detail.

D. Despite Ms. Levy stating her most recent Recovery Percentage was 92% and evidence of a 94% Recovery Percentage, the Disclosure Statement still shows an 86% Recovery Percentage. The proper Recovery Percentage is either 89% or 95%, depending on which interest rate assumption is used for discounting.

139. The Disclosure Statement anticipates a 3.58% interest rate for discounting the year-by-year recovery cash flows and so for comparison purposes, I have discounted the corrected recovery cash flows using that same 3.58% rate. I am using this rate for comparability to the Oversight Board’s calculations only.

⁷⁶ 2022 Certified Fiscal Plan for the Puerto Rico Electric Power Authority As certified by the Financial Oversight and Management Board for Puerto Rico on June 28, 2022, page 175.

⁷⁷ Asset Consulting Group Employees' Retirement System of Puerto Rico Electric Power Authority For the Periods Ending June 30, 2017

⁷⁸ Asset Consulting Group Employees' Retirement System of Puerto Rico Electric Power Authority For the Periods Ending June 30, 2022

⁷⁹ Levy describes 5% rate of decrease as a maturation assumption in the deposition. See Levy deposition, 152:,13-21.

⁸⁰ This assumption was chosen such that the principle remaining at each future fiscal year remains the same, so the only difference accounting for interest. $10.24\% = [1 - (1 - 5\%) / (1 + 6.24\%)]$

⁸¹ For example, if 5% of the \$156m in loans mature under the Oversight Board’s assumption then the balance after the first year is $\$148.2m = \$156m \times (1 - 5\%)$. Using this new assumption, the balance after the first year remains $\$148.2m = \$156m \times (1 + 6.24\%) \times (1 - 10.58\%)$.

140. As shown in the prior section, I have calculated a Pension Claim that makes corrections to the Oversight Board’s calculations while using a 5.75% discount rate but a 5.45% to discount the ADCs. I have shown the Pension Recovery Percentage on this basis in the table below.

141. As shown in the preceding section of this report, I have recalculated the value of the corrected Pension Claim using a 6.30% discount rate. So, for the purposes of an additional “apples-to-apples” comparison I have also discounted the recovery cash flows using this rate.

142. The table below summarizes my recalculation the present value of the corrected year-by-year Pension Recovery amounts at 3.58%, 5.45% and 6.30%, and then compares those values to the corresponding Pension Claim values in order to calculate a range of reasonable and appropriate measures of the Pension Recovery Percentages: 89% to 95%

Reasonable and appropriate measure of the Recovery Percentage (\$ billions)

	Disclosure Statement ⁸²	Reflecting Pension Claim Recovery Corrections		
		Discounting at 3.58% ⁸³	Discounting at 5.45%	Discounting at 6.30%
Pension Claim	\$3.955	\$3.461	\$2.915	\$2.616
PV of Recovery	\$3.412	\$3.281	\$2.582	\$2.334
Recovery percentage	86%	95%	89%	89%

143. The table below summarizes applies the various recovery percentages (shown in the Disclosure Statement⁸⁴) to the correctly calculated Pension Claim of \$2.616 billion.

Claimant	Disclosure Statement: Approx. Recovery (%)	Application of Approx Recovery to the Pension Claim of \$2.616b
Non-Settling Bondholder and Non-Settling Monoline Claims	46.49% ⁸⁵	\$1.216 billion
Pension Claim	86%	\$2.250 billion
Fuel Line Loan Claims	84%	\$2.198 billion
National Insured Bond Claims	71.65%	\$1.875 billion

⁸² Disclosure Statement for Modified Second Amended Title III Plan of Adjustment page 29. PV of recovery of \$3.412 billion is inferred as 86% of \$3.955 billion.

⁸³ Based on the discount rate selected by the Oversight Board, PREPA Pension POA Savings Estimates February 8, 2023 with exhibit 6 appended April 26, 2023, Appendix E.

⁸⁴ Disclosure Statement for Modified Second Amended Title III Plan of Adjustment, page 29.

⁸⁵ Approx. Recovery (%) under scenario "Oversight Board wins lien counts but loses recourse counts." I understand from counsel that these numbers may not reflect the full recoveries available to these claimants under the Plan of Adjustment.

VII. RESPONSE TO THE EXPERT REPORT OF JOSE FERNANDEZ

144. Jose Fernandez is the President and Consulting Actuary of Fase2 C&W, LLC (Fase2), a consulting group that provides actuarial services for “public pension systems.” His opening report was submitted by PREPA ERS to this Court on April 28, 2023.

A. Fernandez failed to take into account \$595 million in assets when setting his claim. This and other mistakes cause his claim to be overstated by \$936 million

145. Fernandez asserts that the ERS Retirement System’s claim is \$4,459.5 million based on the June 30, 2021 actuarial valuation report using a 5.75% discount rate⁸⁶. This is a flawed claim number in numerous ways.

146. The bankruptcy petition date is July 2, 2017. The closest pension measurement date is June 30, 2017 and not June 30, 2021. The date of June 30, 2021 is irrelevant to this process. However, for purposes of this analysis, I show the flaw in his claim methodology using his measurement date of June 30, 2021.

147. Fernandez’s claim is based on an actuarial liability known as the “Present Value of Future Benefits”, which exceeds the Entry Age Normal actuarial accrued liability by \$229.7 million due to valuing all future pay and future service for active employees. Reducing his claim of \$4,459.5 million⁸⁷ by the amount of liability on account of future pay and service reduces the claim to \$4,229.8 million, which is the Entry Age Normal actuarial liability⁸⁸.

148. However, as discussed earlier in this report, the Entry Age Normal Actuarial liability itself overstates the value of the benefits that had been earned as of the measurement date. The reduced claim of \$4,229.8 million itself by \$111.5 million⁸⁹ to \$4,118.2 million. This \$4,118.2 million is the approximate unit credit liability at Fernandez’s measurement date of June 30, 2021.

149. Finally, the Pension Claim should be reduced by the assets currently available to pay pension benefits. As of June 30, 2021, the 2021 actuarial report showed a market value of asset of \$1,263.0 million and a contribution receivable of \$668.1 million.

150. The amount of assets available to pay pension benefits as of June 30, 2023, should be reduced by contribution receivables because contribution receivables are the amount owed by PREPA to the Retirement System and had not been contributed to the pension plan. Therefore, the amount of assets available to pay pension benefits is \$594.9 million (obtained as \$1,263.0 million minus \$668.1 million).

⁸⁶ In Mr. Jose Fernandez’s expert declaration, page 8, he states that “The total actuarial liabilities of \$4,459.5 million is the estimated claim by the Retirement System to maintain the promised benefits under the current System without any changes or reform.”

⁸⁷ Employees’ Retirement System of Puerto Rico Electric Power Authority Report on the Seventy-Sixth Actuarial Valuation As of June 30, 2021, page 7.

⁸⁸ Ibid, page 1.

⁸⁹ This calculation is estimated based on my June 30, 2017 results.

151. After reducing the claim by the amount of assets available to pay benefits, Fernandez's claim after correcting for his flawed methodologies would have been \$3,523.3 million measured at a 5.75% discount rate as of June 30, 2021, a reduction of \$936 million from his original Claim of \$4,459.5 million

B. Correcting for Fernandez's flawed claim amount, the Recovery Percentage would have been 95%.

152. Fernandez calculates a Recovery of \$3,344.8 million as of June 30, 2023⁹⁰. This Recovery amount is calculated as the present value of benefits reflecting the Oversight Board's pension reforms using a 5.75% discount rate. To obtain the Recovery Percentage, Fernandez divides the Recovery amount \$3,344.8 million by his Claim amount. He calculates 75% as the Recovery Percentage.

153. His Recovery Percentage calculation suffers from the problem of mismatched dates because the recovery amount of \$3,344.8 million is as of June 30, 2023, while his claim is calculated as of June 30, 2021. The mismatch of the "as of" dates causes different years to be used for Claim versus Recovery. This mismatch of dates would produce unreliable Recovery Percentage.

154. Putting aside the mismatch of dates, if I take his recovery amount of \$3,344.8 million and divide it by the corrected claim amount of \$3,523.3 million, the Recovery Percentage would have been 95%, significantly higher than his 75% Recovery Percentage.

155. In Fernandez's report, he also calculates a recovery of \$3,746.0 million if the Retirement System were to receive 84% of the Pension Claim, the same Recovery Percentage as the Fuel Line lenders (FLL). However, the \$3,746.0m figure is based on his flawed Pension Claim of \$4,459.5m. If the corrected Pension Claim of \$3,523.3m is used, the 84% Recovery Percentage would produce a much lower Recovery amount of \$2,959.6m.

C. Mr. Fernandez's analysis of the Retirement System's reform proposal is flawed and results in an inexplicable conclusion.

156. In his report, Mr. Fernandez also summarizes the Retirement System's reform proposal, which proposes to eliminate future pension increases for current inactive members (i.e., current retirees, beneficiaries, and terminated vested members entitled to deferred benefits), while maintaining all active employees' current benefits in a new defined benefit trust. This proposal provides for more generous pension benefits than the Oversight Board's proposed pension reform for active members.

157. Mr. Fernandez's analysis of the actuarial viability of the Retirement System's proposal depends crucially on the initial funding of the new plan for active members. As he stated,

⁹⁰ Mr. Jose Fernandez's expert declaration, page 9.

The employer contributions will vary depending on the funds the new plan will receive to fund the actuarial accrued liabilities transferred from the current System....The greater the initial assets of the new plan, the lower the ongoing employer contributions.⁹¹

158. In his analysis of the actuarial viability of the Retirement System's proposal under the assumption that the Retirement System receives the same treatment as the Fuel Line Lenders (FLL), Mr. Fernandez assumes that \$731.6⁹² million would be available as the initial assets for the new active employees' plan. With this initial funding, he shows a total savings of \$656.1 million for the Retirement System's proposal compared to the Oversight Board's proposal.⁹³

159. This analysis is flawed because the purported “savings” is obtained by not counting the initial asset of \$731.6 million as a cost to the employer. If the initial asset of \$731.6 million are added in as an employer cost under the Retirement System’s proposal, then the “savings” would disappear. Further, his total savings is the nominal sum of the differences in annual employer contributions on or after fiscal year 2024. This has the effect of counting the investment earnings on the initial assets as future savings. Thus, by not counting the initial \$731.6 million as a cost but including the future investment returns on \$731.6 million as savings, Mr. Fernandez’s methodology produced an inexplicable result, namely, that a more generous pension benefit proposal under the Retirement System ended up saving money for the employer.

* * * * *

160. I declare under penalty of perjury that the foregoing is true to the best of my knowledge, information and belief.

May 15, 2023

Thomas S. Terry

Thomas S. Terry

⁹¹ Fernandez report, page 13.

⁹² The 731.6 million is calculated as $84\% * \$4,459.5 - \$3,014.4$, where 84% is the recovery percentage for the fuel line lenders, \$4,459.5 is the “all-in” present value of future benefits, and \$3,014.4 is the current retirees’ benefit obligation after the elimination of COLA.

⁹³ Fernandez report, page 14.

APPENDICES

- Appendix A. Thomas S. Terry CV
- Appendix B. Materials Considered in the Preparation of this Report
- Appendix C. Data, Assumptions and Methods, and Plan Provisions
- Appendix D. Development of Reasonable and Appropriate Pension Claim Cash Flows
- Appendix E. Development of a Reasonable and Appropriate Interest Rate Assumption
- Appendix F. Development of Reasonable and Appropriate Recovery Cash Flows
- Appendix G. Participant Loan Repayment Schedule
- Appendix H. Reliance on Models

Appendix A: Thomas S. Terry CV

Thomas S. Terry, MAAA, FSA, FCA, EA
CEO
The Terry Group
130 E. Randolph Street, Suite 2810
Chicago, IL 60601

Education

Masters of Actuarial Science, Graduate School of Business Administration, University of Michigan, 1975

Bachelor of Science, Tufts University, 1973

- Summa Cum Laude
- Double major in math and physics
- Phi Beta Kappa
- Winner, N. Hobbs Knight Prize Scholarship for excellence in theoretical and practical physics

Professional Experience

The Terry Group, 2010 to present

- Founder and CEO

J.P. Morgan Compensation and Benefit Strategies, 2006 to 2010

- CEO of J.P. Morgan Compensation and Benefit Strategies
- J.P. Morgan acquired CCA Strategies in October 2006

CCA Strategies LLC, 1991 to 2006

- Co-founder and President
- Firm of approximately 200 professionals in ten offices across the U.S.

Towers Perrin, 1975 to 1991

- Principal and Vice President
- More than two thousand actuaries and employee benefits professionals world-wide
- Retirement Plan Practice Leader in Chicago office

Professional Associations and Research Organizations: Roles and Memberships

International Actuarial Association (association of world-wide actuarial associations):

- President, 2017
- Chair, Pensions and Employee Benefits Committee, 2015

Uncertain Times, Plural Rationalities and the Pension Fiduciary in *Handbook of Institutional Investment and Fiduciary Duty* (edited by James P. Hawley, et al, 239-253) Liaw Huang, David Ingram, Thomas Terry, and Michael Thompson – Cambridge University Press, 2014

Public Interest – Preserving the Trust

President's Message, Contingencies Magazine, November-December 2014

The Aging of America

President's Message, Contingencies Magazine, September-October 2014

A New Retirement Paradigm

President's Message, Contingencies Magazine, July-August 2014

Public Confidence – What Does It Take?

President's Message, Contingencies Magazine, May-June 2014

Promoting Objective Public Policy in a Partisan World

President's Message, Contingencies Magazine, March-April 2014

Keeping Up with the Brits

President's Message, Contingencies Magazine, January-February 2014

A Year Well Spent

President's Message, Contingencies Magazine, November-December 2013

Communicating Longevity Risk – Beyond the Definitions

Co-authored with Liaw Huang; presented in Beijing at Longevity 9 Conference, 2013

Congressional Testimony

Testimony on Social Security's Current Benefit Expenditures, Proposed Changes to Future Benefits and the Impact Those Change Would Have on the Program, Future Beneficiaries, Workers, and the Economy. U.S. House of Representatives Ways and Means Committee Subcommittee on Social Security, July 2011

Expert Trial or Deposition Testimony within Previous Ten Years

Berube v. Rockwell Automation Inc., et. al., Case No. 2:20-cv-01783 (United States District Court Eastern District of Wisconsin)

Williams v. Retirement Plan for Chicago Transit Authority Employees, et al., Case No. 11-CH-15446 (Circuit Court of Cook Co., IL)

Guenther v. BP Retirement Accumulation Plan, Case No. 4:16-CV-995 (S.D. Tex.)

PREPA Audited Basic Financial Statements and Required Supplementary Information, For the fiscal year ended June 30, 2021 (with Independent Auditors' Report Thereon) (PREPA - Audited Financial Statement FY Ended 6-30-2021.pdf)

PREPA Pension Claim and Recovery, January 27, 2023 (Prepa Claim and recovery exhibit 1.27.23.pdf)

PREPA_3.1 Update v2.pdf.pdf

PREPA Employee Retirement System Regulations, Amended April 26, 2018 (retirement_system_regulations.pdf.pdf)

Horizon Survey of Capital Market Assumptions, 2017 Edition (available at https://www.horizonactuarial.com/uploads/3/0/4/9/30499196/horizon_cma_survey_2017_v0822.pdf)

Asset Consulting Group Employees' Retirement System of Puerto Rico Electric Power Authority For the Periods Ending June 30, 2017

Asset Consulting Group Employees' Retirement System of Puerto Rico Electric Power Authority For the Periods Ending June 30, 2022

PREPA Pension Claim and Recovery Discussion January 27, 2023 (PREPA Claim and Recovery Discussion 1-27-23.pdf)

PREPA Pension POA Savings Estimates February 8, 2023 with exhibit 6 appended April 26, 2023 (Prepa exhibits 4.26.23.pdf)

PREPA Pension Inputs Discussion January 5, 2023 (PREPA Pension Inputs Discussion 1-5-23.pdf)

Report of the Blue Ribbon Panel on Public Pension Plan Funding, February 2014

Expert Declaration of Mr. José Fernandez, dated April 28, 2023

Deposition of Sheva Levy, dated May 10, 2023

Report of David Plastino, dated May 5, 2023

Debtor's Opening Expert Report and Disclosures (ECF No. 3418), dated April 28, 2023

US Code Title 11

Code of Professional Conduct

Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States, Effective January 1, 2022.

Actuarial Standard of Practice No. 4, Measuring Pension Obligations and Determining Pension Plan Costs or Contributions

Actuarial Standard of Practice No. 17, Expert Testimony by Actuaries

Actuarial Standard of Practice No. 23, Data Quality

Actuarial Standard of Practice No. 27, Selection of Economic Assumptions for Measuring Pension Obligations

Actuarial Standard of Practice No. 35, Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations

Actuarial Standard of Practice No. 41, Actuarial Communications

Actuarial Standard of Practice No. 56, Modeling

Appendix C: Data, Assumptions and Methods, and Plan Provisions

The following outlines the assumptions, methods, data and plan provisions I used to replicate results presented in the “Employees’ Retirement System of Puerto Rico Electric Power Authority report on the Seventy-Second Actuarial Valuation as of June 30, 2017” prepared by Cavanaugh Macdonald, the retirement system’s actuary, and issued on July 8, 2019 (“2017 Actuarial Valuation”). In my replication I used actuarial assumptions and methods described in and thus consistent with the 2017 Actuarial Valuation—the retirement system’s own assumptions and methods—and is the basis upon which I perform my projections.

As seen below, I was able to replicate both the key characteristics of the member data and the associated active, inactive and total actuarial accrued liabilities.

Replication Results

The following chart compares key results as of June 30, 2017 published in the 2017 Actuarial Valuation with the results of the replication process (“Replication Results”) (dollars in millions).

Item	2017 Actuarial Valuation	2017 Replication Results
Active headcount	6,196	6,196
Inactive headcount	12,435	12,435
Active pensionable compensation	\$253.6	\$253.6
Active actuarial accrued liability	\$1,054.1	\$1,118.2
Inactive actuarial accrued liability	\$3,123.8	\$3,067.1
Total actuarial accrued liability	\$4,177.9	\$4,185.3

Actuarial Assumptions

All actuarial assumptions used for the 2017 Replication Results are consistent with Section D of the 2017 Actuarial Valuation.

Actuarial Cost Method

The actuarial cost method used for the 2017 Replication Results is the Individual Entry Age Normal actuarial cost method, consistent with the 2017 Actuarial Valuation (see pages 19 and 23).

Plan Provisions for the PREPA Employee Retirement System

a) Participation

All employees who were identified as participants for purposes of the actuarial valuation were assumed to be eligible to participate in the Plan.

b) Final Average Compensation

Average of the three highest annual base salaries. For new members hired on or after January 1, 1993, annual compensation is limited to \$50,000.

Note: The annual salary as reported in the actuarial valuation is assumed to already reflect the \$50,000 annual pay limit.

c) Accrued Basic Benefit

The accrued basic benefit is an annual amount equal to one and half percent (1.50%) of Final Average Compensation multiplied by service (up to twenty years) plus two percent (2.0%) of Final Average Compensation multiplied by service in excess of twenty, with a total maximum amount of seventy-five percent (75%) of Final Average Compensation.

The accrued basic benefit is assumed to be supplementary to any benefits payable under the Social Security Act for all participants.

d) Retirement Benefits

Basic retirement benefit

Eligibility: Age 60 with at least 5 years of service or any age with 20 or more years of service

Amount: Accrued basic benefit payable at age 60 for the life of the participant with 30% of the benefit continuing to the surviving spouse. A participant who retires with 20 or more years of service but is under age 60, may elect to commence benefits immediately at retirement and receive an actuarially reduced benefit to the benefit that would have been payable at age 60.

Merit retirement benefit

Eligibility

- Hired before 1/1/1993: 30 years of service (or reduced benefits after 25 years of service)
- Hired on/after 1/1/1993: age 55 with 30 or more years of service (or reduced benefits after age 50 with 30 or more years of service)

Amount: Annual amount equal to seventy-five percent (75%) of Final Average Compensation.

The merit benefits is assumed to be supplementary to any benefits payable under the Social Security Act for all participants.

Death after retirement:

Eligibility:

- Retirement after age 60 with at least 15 years of service or any age with 20 years of service
- Termination after 15 years of service
- Disability after 5 years of service (for pre-1/1/1993 hires) or after 10 years of service (hires on/after 1/1/1993)

Amount: lump sum benefit is payable when retirement benefits begin equal to the last salary at the time of termination.

A participant who retires after age 60 with 5 or more years of service but prior to 15 years of service will be eligible for a reduced lump sum benefit equal to the last salary multiplied by years of service over fifteen. A participant who terminates due to disability but with fewer years of service than are required for the full disability lump sum, will be eligible for a reduced lump sum equal to the last salary multiplied the ratio of the number of years credited to the number of years required for eligibility.

Surviving spouse benefit

Surviving spouses of retired members receiving a benefit will receive a life annuity equal to 30% of the annual pension payable to the member at the time of death.

h) Employee Contributions

Employees hired before January 1, 1993 are assumed to contribute 9.06% of salary (with no election for optional early payment of the salary death benefit). Employees hired on or after January 1, 1993 are assumed to contribute 11.0% of salary (with no election for optional early payment of the salary death benefit).

Contributions are credited with interest at a rate of 5% per year.

Contributions are refunded as follows:

- Upon death in active service
- Upon separation of a non-vested member

In addition, a vested participant can elect a refund of contributions in lieu of a deferred benefit (although no vested participants are assumed to make this election). Upon death after commencement of a pension, a participant who did not elect an optional form of payment will receive the excess, if any, of the accrued contributions over the installments already received.

i) Cost-of-living adjustments

Increases are assumed to be granted automatically every three years as follows:

- 8% on monthly pensions up to \$300
- 4% for monthly pensions on the next \$300
- 2% of the monthly pension in excess of \$600

The minimum monthly increase is \$25 and the maximum monthly increase is \$50.

j) Additional benefits

Christmas bonus: an annual Christmas bonus of \$400 is payable to all current and future retirees and beneficiaries.

Summer bonus: an annual summer bonus of \$100 is payable to all current and future retirees and beneficiaries.

Funeral benefits: a lump sum benefit of \$1,000 is payable upon death to all current and future retirees.

Appendix D: Development of Reasonable and Appropriate Pension Claim Cash Flows

1. Disclosure Statement: \$3.955 billion

2. Remove non-vested benefits; measure value using unit credit method: \$3.548 billion

(dollars below shown in millions)

Fiscal Year End	Liability		Assets, Funded Ratios				Development of the ADC								Cash Flows				
	Liability	Interest Assumption	Assets	Return on Assets	UAAL	Funded Ratio	Amort Years	Annuity Factor	Normal Cost	Expense Allowance	Amort pymt	Int	Membr Cont	ADC	Benefit Payments	Expense Allowance	Member Contrib	Employer Contrib	
2017	4,062	5.75%	1,226		2,836	30.2%	23	12.58	-	0.3	225	6	(25)	207					
2018	4,007	5.75%	1,141	5.75%	2,866	28.5%	22	12.31	-	0.3	233	7	-	240	(280)	(0.3)	-	130	
2019	3,945	5.75%	1,127	5.75%	2,818	28.6%	21	12.02	-	0.3	235	7	-	241	(283)	(0.3)	-	207	
2020	3,878	5.75%	1,144	5.75%	2,734	29.5%	20	11.71	-	0.3	234	7	-	240	(285)	(0.3)	-	240	
2021	3,805	5.75%	1,162	5.75%	2,643	30.5%	19	11.38	-	0.3	232	7	-	239	(287)	(0.3)	-	241	
2022	3,727	5.75%	1,179	5.75%	2,548	31.6%	18	11.03	-	0.3	231	7	-	238	(287)	(0.3)	-	240	
2023	3,644	5.75%	1,195	5.75%	2,449	32.8%	17	10.67	-	0.3	230	7	-	236	(288)	(0.3)	-	239	
2024	3,553	5.75%	1,208	5.75%	2,346	34.0%	16	10.28	-	0.3	228	6	-	235	(291)	(0.3)	-	238	
2025	3,459	5.75%	1,222	5.75%	2,238	35.3%	15	9.87	-	0.3	227	6	-	233	(289)	(0.3)	-	236	
2026	3,358	5.75%	1,233	5.75%	2,125	36.7%	14	9.44	-	0.3	225	6	-	232	(291)	(0.3)	-	235	
2027	3,255	5.75%	1,247	5.75%	2,008	38.3%	13	8.98	-	0.3	223	6	-	230	(287)	(0.3)	-	233	
2028	3,145	5.75%	1,260	5.75%	1,885	40.1%	12	8.50	-	0.3	222	6	-	228	(288)	(0.3)	-	232	
2029	3,028	5.75%	1,271	5.75%	1,757	42.0%	11	7.99	-	0.3	220	6	-	226	(288)	(0.3)	-	230	
2030	2,912	5.75%	1,288	5.75%	1,624	44.2%	10	7.45	-	0.3	218	6	-	224	(281)	(0.3)	-	228	
2031	2,789	5.75%	1,305	5.75%	1,484	46.8%	9	6.88	-	0.3	216	6	-	222	(281)	(0.3)	-	226	
2032	2,668	5.75%	1,329	5.75%	1,339	49.8%	8	6.27	-	0.3	214	6	-	220	(273)	(0.3)	-	224	
2033	2,542	5.75%	1,354	5.75%	1,188	53.3%	7	5.63	-	0.3	211	6	-	217	(271)	(0.3)	-	222	
2034	2,414	5.75%	1,384	5.75%	1,030	57.3%	6	4.96	-	0.3	208	6	-	214	(265)	(0.3)	-	220	
2035	2,289	5.75%	1,422	5.75%	867	62.1%	5	4.24	-	0.3	204	6	-	210	(255)	(0.3)	-	217	
2036	2,162	5.75%	1,465	5.75%	697	67.8%	4	3.49	-	0.2	200	6	-	206	(251)	(0.3)	-	214	
2037	2,039	5.75%	1,518	5.75%	520	74.5%	3	2.69	-	0.2	194	6	-	200	(240)	(0.2)	-	210	
2038	1,915	5.75%	1,576	5.75%	339	82.3%	2	1.84	-	0.2	184	5	-	190	(233)	(0.2)	-	206	
2039	1,793	5.75%	1,639	5.75%	154	91.4%	1	0.95	-	0.2	162	5	-	167	(225)	(0.2)	-	200	
2040	1,676	5.75%	1,708	5.75%	(33)	101.9%	1	0.95	-	0.2	-	0	-	0	(213)	(0.2)	-	190	
2041	1,561	5.75%	1,767	5.75%	(206)	113.2%	1	0.95	-	0.2	-	0	-	0	(205)	(0.2)	-	167	
2042	1,451	5.75%	1,669	5.75%	(218)	115.0%	1	0.95	-	0.2	-	0	-	0	(193)	(0.2)	-	0	
2043	1,345	5.75%	1,575	5.75%	(231)	117.1%	1	0.95	-	0.2	-	0	-	0	(184)	(0.2)	-	0	
2044	1,244	5.75%	1,488	5.75%	(244)	119.6%	1	0.95	-	0.2	-	0	-	0	(173)	(0.2)	-	0	
2045	1,148	5.75%	1,406	5.75%	(258)	122.5%	1	0.95	-	0.2	-	0	-	0	(162)	(0.2)	-	0	
2046	1,057	5.75%	1,330	5.75%	(273)	125.8%	1	0.95	-	0.1	-	0	-	0	(152)	(0.2)	-	0	
2047	971	5.75%	1,259	5.75%	(288)	129.7%	1	0.95	-	0.1	-	0	-	0	(142)	(0.1)	-	0	
2048	889	5.75%	1,194	5.75%	(305)	134.3%	1	0.95	-	0.1	-	0	-	0	(133)	(0.1)	-	0	
2049	813	5.75%	1,135	5.75%	(323)	139.7%	1	0.95	-	0.1	-	0	-	0	(124)	(0.1)	-	0	
2050	741	5.75%	1,082	5.75%	(341)	146.1%	1	0.95	-	0.1	-	0	-	0	(115)	(0.1)	-	0	
2051	673	5.75%	1,034	5.75%	(361)	153.6%	1	0.95	-	0.1	-	0	-	0	(107)	(0.1)	-	0	
2052	610	5.75%	991	5.75%	(382)	162.6%	1	0.95	-	0.1	-	0	-	0	(99)	(0.1)	-	0	
2053	550	5.75%	954	5.75%	(403)	173.3%	1	0.95	-	0.1	-	0	-	0	(91)	(0.1)	-	0	
2054	495	5.75%	922	5.75%	(427)	186.2%	1	0.95	-	0.1	-	0	-	0	(84)	(0.1)	-	0	
2055	444	5.75%	895	5.75%	(451)	201.6%	1	0.95	-	0.1	-	0	-	0	(77)	(0.1)	-	0	
2056	396	5.75%	873	5.75%	(477)	220.4%	1	0.95	-	0.1	-	0	-	0	(71)	(0.1)	-	0	
2057	352	5.75%	857	5.75%	(505)	243.3%	1	0.95	-	0.1	-	0	-	0	(65)	(0.1)	-	0	
2058	312	5.75%	845	5.75%	(534)	271.2%	1	0.95	-	0.1	-	0	-	0	(59)	(0.1)	-	0	
2059	274	5.75%	839	5.75%	(564)	305.6%									(53)	(0.1)	-	0	

Inputs	
Interest Assumption	5.75%
Exp allowance as % of ben	0.1%
Full Funding Cap	None

Results	
Discount rate	3.58%
PV of Employer Contribs	3,548

3. Correct for inadvertent over-funding: \$3.461 billion

(dollars below shown in millions)

	Liability		Assets, Funded Ratios				Development of the ADC								Cash Flows				
Fiscal Year End	Liability	Interest Assumption	Assets	Return on Assets	UAAL	Funded Ratio	Amort Years	Annuity Factor	Normal Cost	Expense Allowance	Amort pymt	Int	Membr Cont	ADC	Benefit Payments	Expense Allowance	Member Contrib	Employer Contrib	
2017	4,062	5.75%	1,226		2,836	30.2%	23	12.58	-	0.3	225	6	(25)	207	(280)	(0.3)	-	130	
2018	4,007	5.75%	1,141	5.75%	2,866	28.5%	22	12.31	-	0.3	233	7	-	240	(283)	(0.3)	-	207	
2019	3,945	5.75%	1,127	5.75%	2,818	28.6%	21	12.02	-	0.3	235	7	-	241	(285)	(0.3)	-	240	
2020	3,878	5.75%	1,144	5.75%	2,734	29.5%	20	11.71	-	0.3	234	7	-	240	(287)	(0.3)	-	241	
2021	3,805	5.75%	1,162	5.75%	2,643	30.5%	19	11.38	-	0.3	232	7	-	239	(287)	(0.3)	-	240	
2022	3,727	5.75%	1,179	5.75%	2,548	31.6%	18	11.03	-	0.3	231	7	-	238	(288)	(0.3)	-	239	
2023	3,644	5.75%	1,195	5.75%	2,449	32.8%	17	10.67	-	0.3	230	7	-	236	(291)	(0.3)	-	238	
2024	3,553	5.75%	1,208	5.75%	2,346	34.0%	16	10.28	-	0.3	228	6	-	235	(289)	(0.3)	-	236	
2025	3,459	5.75%	1,222	5.75%	2,238	35.3%	15	9.87	-	0.3	227	6	-	233	(291)	(0.3)	-	235	
2026	3,358	5.75%	1,233	5.75%	2,125	36.7%	14	9.44	-	0.3	225	6	-	232	(287)	(0.3)	-	233	
2027	3,255	5.75%	1,247	5.75%	2,008	38.3%	13	8.98	-	0.3	223	6	-	230	(288)	(0.3)	-	232	
2028	3,145	5.75%	1,260	5.75%	1,885	40.1%	12	8.50	-	0.3	222	6	-	228	(288)	(0.3)	-	230	
2029	3,028	5.75%	1,271	5.75%	1,757	42.0%	11	7.99	-	0.3	220	6	-	226	(281)	(0.3)	-	228	
2030	2,912	5.75%	1,288	5.75%	1,624	44.2%	10	7.45	-	0.3	218	6	-	224	(281)	(0.3)	-	226	
2031	2,789	5.75%	1,305	5.75%	1,484	46.8%	9	6.88	-	0.3	216	6	-	222	(273)	(0.3)	-	224	
2032	2,668	5.75%	1,329	5.75%	1,339	49.8%	8	6.27	-	0.3	214	6	-	220	(271)	(0.3)	-	222	
2033	2,542	5.75%	1,354	5.75%	1,188	53.3%	7	5.63	-	0.3	211	6	-	217	(265)	(0.3)	-	220	
2034	2,414	5.75%	1,384	5.75%	1,030	57.3%	6	4.96	-	0.3	208	6	-	214	(255)	(0.3)	-	217	
2035	2,289	5.75%	1,422	5.75%	867	62.1%	5	4.24	-	0.3	204	6	-	210	(251)	(0.3)	-	214	
2036	2,162	5.75%	1,465	5.75%	697	67.8%	4	3.49	-	0.2	200	6	-	206	(240)	(0.2)	-	210	
2037	2,039	5.75%	1,518	5.75%	520	74.5%	3	2.69	-	0.2	194	6	-	200	(233)	(0.2)	-	206	
2038	1,915	5.75%	1,576	5.75%	339	82.3%	2	1.84	-	0.2	184	5	-	190	(225)	(0.2)	-	200	
2039	1,793	5.75%	1,639	5.75%	154	91.4%	1	0.95	-	0.2	162	5	-	167	(213)	(0.2)	-	158	
2040	1,676	5.75%	1,676	5.75%	(0)	100.0%	1	0.95	-	0.2	-	0	-	0	(205)	(0.2)	-	0	
2041	1,561	5.75%	1,561	5.75%	(0)	100.0%	1	0.95	-	0.2	-	0	-	0	(193)	(0.2)	-	0	
2042	1,451	5.75%	1,452	5.75%	(0)	100.0%	1	0.95	-	0.2	-	0	-	0	(184)	(0.2)	-	0	
2043	1,345	5.75%	1,345	5.75%	(0)	100.0%	1	0.95	-	0.2	-	0	-	0	(173)	(0.2)	-	0	
2044	1,244	5.75%	1,244	5.75%	(0)	100.0%	1	0.95	-	0.2	-	0	-	0	(162)	(0.2)	-	0	
2045	1,148	5.75%	1,148	5.75%	(0)	100.0%	1	0.95	-	0.2	-	0	-	0	(152)	(0.2)	-	0	
2046	1,057	5.75%	1,057	5.75%	(0)	100.0%	1	0.95	-	0.1	-	0	-	0	(142)	(0.1)	-	0	
2047	971	5.75%	971	5.75%	(0)	100.0%	1	0.95	-	0.1	-	0	-	0	(133)	(0.1)	-	0	
2048	889	5.75%	889	5.75%	(0)	100.0%	1	0.95	-	0.1	-	0	-	0	(124)	(0.1)	-	0	
2049	813	5.75%	813	5.75%	(0)	100.0%	1	0.95	-	0.1	-	0	-	0	(115)	(0.1)	-	0	
2050	741	5.75%	741	5.75%	(0)	100.0%	1	0.95	-	0.1	-	0	-	0	(107)	(0.1)	-	0	
2051	673	5.75%	673	5.75%	(0)	100.0%	1	0.95	-	0.1	-	0	-	0	(99)	(0.1)	-	0	
2052	610	5.75%	610	5.75%	(0)	100.0%	1	0.95	-	0.1	-	0	-	0	(91)	(0.1)	-	0	
2053	550	5.75%	551	5.75%	(0)	100.0%	1	0.95	-	0.1	-	0	-	0	(84)	(0.1)	-	0	
2054	495	5.75%	495	5.75%	(0)	100.0%	1	0.95	-	0.1	-	0	-	0	(77)	(0.1)	-	0	
2055	444	5.75%	444	5.75%	(0)	100.0%	1	0.95	-	0.1	-	0	-	0	(71)	(0.1)	-	0	
2056	396	5.75%	396	5.75%	(0)	100.0%	1	0.95	-	0.1	-	0	-	0	(65)	(0.1)	-	0	
2057	352	5.75%	352	5.75%	(0)	100.0%	1	0.95	-	0.1	-	0	-	0	(59)	(0.1)	-	0	
2058	312	5.75%	312	5.75%	(0)	100.0%	1	0.95	-	0.1	-	0	-	0	(53)	(0.1)	-	0	
2059	274	5.75%	274	5.75%	(0)	100.0%													

Inputs	
Interest Assumption	5.75%
Exp allowance as % of ben	0.1%
Full Funding Cap	100%

Results	
Discount rate	3.58%
PV of Employer Contribs	3,461

4. Correct for reasonable cost of borrowing: \$2.915 billion

(dollars below shown in millions)

Fiscal Year End	Liability		Assets, Funded Ratios				Development of the ADC								Cash Flows			
	Liability	Interest Assumption	Assets	Return on Assets	UAAL	Funded Ratio	Amort Years	Annuity Factor	Normal Cost	Expense Allowance	Amort pymt	Int	Memb Cont	ADC	Benefit Payments	Expense Allowance	Member Contrib	Employer Contrib
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2018	4,007	5.75%	1,141	5.75%	2,866	28.5%	22	12.31	-	0.3	233	7	-	240	(280)	(0.3)	-	130
2019	3,945	5.75%	1,127	5.75%	2,818	28.6%	21	12.02	-	0.3	235	7	-	241	(283)	(0.3)	-	207
2020	3,878	5.75%	1,144	5.75%	2,734	29.5%	20	11.71	-	0.3	234	7	-	240	(285)	(0.3)	-	240
2021	3,805	5.75%	1,162	5.75%	2,643	30.5%	19	11.38	-	0.3	232	7	-	239	(287)	(0.3)	-	241
2022	3,727	5.75%	1,179	5.75%	2,548	31.6%	18	11.03	-	0.3	231	7	-	238	(287)	(0.3)	-	240
2023	3,644	5.75%	1,195	5.75%	2,449	32.8%	17	10.67	-	0.3	230	7	-	236	(288)	(0.3)	-	239
2024	3,553	5.75%	1,208	5.75%	2,346	34.0%	16	10.28	-	0.3	228	6	-	235	(291)	(0.3)	-	238
2025	3,459	5.75%	1,222	5.75%	2,238	35.3%	15	9.87	-	0.3	227	6	-	233	(289)	(0.3)	-	236
2026	3,358	5.75%	1,233	5.75%	2,125	36.7%	14	9.44	-	0.3	225	6	-	232	(291)	(0.3)	-	235
2027	3,255	5.75%	1,247	5.75%	2,008	38.3%	13	8.98	-	0.3	223	6	-	230	(287)	(0.3)	-	233
2028	3,145	5.75%	1,260	5.75%	1,885	40.1%	12	8.50	-	0.3	222	6	-	228	(288)	(0.3)	-	232
2029	3,028	5.75%	1,271	5.75%	1,757	42.0%	11	7.99	-	0.3	220	6	-	226	(288)	(0.3)	-	230
2030	2,912	5.75%	1,288	5.75%	1,624	44.2%	10	7.45	-	0.3	218	6	-	224	(281)	(0.3)	-	228
2031	2,789	5.75%	1,305	5.75%	1,484	46.8%	9	6.88	-	0.3	216	6	-	222	(281)	(0.3)	-	226
2032	2,668	5.75%	1,329	5.75%	1,339	49.8%	8	6.27	-	0.3	214	6	-	220	(273)	(0.3)	-	224
2033	2,542	5.75%	1,354	5.75%	1,188	53.3%	7	5.63	-	0.3	211	6	-	217	(271)	(0.3)	-	222
2034	2,414	5.75%	1,384	5.75%	1,030	57.3%	6	4.96	-	0.3	208	6	-	214	(265)	(0.3)	-	220
2035	2,289	5.75%	1,422	5.75%	867	62.1%	5	4.24	-	0.3	204	6	-	210	(255)	(0.3)	-	217
2036	2,162	5.75%	1,465	5.75%	697	67.8%	4	3.49	-	0.2	200	6	-	206	(251)	(0.3)	-	214
2037	2,039	5.75%	1,518	5.75%	520	74.5%	3	2.69	-	0.2	194	6	-	200	(240)	(0.2)	-	210
2038	1,915	5.75%	1,576	5.75%	339	82.3%	2	1.84	-	0.2	184	5	-	190	(233)	(0.2)	-	206
2039	1,793	5.75%	1,639	5.75%	154	91.4%	1	0.95	-	0.2	162	5	-	167	(225)	(0.2)	-	200
2040	1,676	5.75%	1,676	5.75%	(0)	100.0%	1	0.95	-	0.2	-	0	-	0	(213)	(0.2)	-	158
2041	1,561	5.75%	1,561	5.75%	(0)	100.0%	1	0.95	-	0.2	-	0	-	0	(205)	(0.2)	-	0
2042	1,451	5.75%	1,452	5.75%	(0)	100.0%	1	0.95	-	0.2	-	0	-	0	(193)	(0.2)	-	0
2043	1,345	5.75%	1,345	5.75%	(0)	100.0%	1	0.95	-	0.2	-	0	-	0	(184)	(0.2)	-	0
2044	1,244	5.75%	1,244	5.75%	(0)	100.0%	1	0.95	-	0.2	-	0	-	0	(173)	(0.2)	-	0
2045	1,148	5.75%	1,148	5.75%	(0)	100.0%	1	0.95	-	0.2	-	0	-	0	(162)	(0.2)	-	0
2046	1,057	5.75%	1,057	5.75%	(0)	100.0%	1	0.95	-	0.1	-	0	-	0	(152)	(0.2)	-	0
2047	971	5.75%	971	5.75%	(0)	100.0%	1	0.95	-	0.1	-	0	-	0	(142)	(0.1)	-	0
2048	889	5.75%	889	5.75%	(0)	100.0%	1	0.95	-	0.1	-	0	-	0	(133)	(0.1)	-	0
2049	813	5.75%	813	5.75%	(0)	100.0%	1	0.95	-	0.1	-	0	-	0	(124)	(0.1)	-	0
2050	741	5.75%	741	5.75%	(0)	100.0%	1	0.95	-	0.1	-	0	-	0	(115)	(0.1)	-	0
2051	673	5.75%	673	5.75%	(0)	100.0%	1	0.95	-	0.1	-	0	-	0	(107)	(0.1)	-	0
2052	610	5.75%	610	5.75%	(0)	100.0%	1	0.95	-	0.1	-	0	-	0	(99)	(0.1)	-	0
2053	550	5.75%	551	5.75%	(0)	100.0%	1	0.95	-	0.1	-	0	-	0	(91)	(0.1)	-	0
2054	495	5.75%	495	5.75%	(0)	100.0%	1	0.95	-	0.1	-	0	-	0	(84)	(0.1)	-	0
2055	444	5.75%	444	5.75%	(0)	100.0%	1	0.95	-	0.1	-	0	-	0	(77)	(0.1)	-	0
2056	396	5.75%	396	5.75%	(0)	100.0%	1	0.95	-	0.1	-	0	-	0	(71)	(0.1)	-	0
2057	352	5.75%	352	5.75%	(0)	100.0%	1	0.95	-	0.1	-	0	-	0	(65)	(0.1)	-	0
2058	312	5.75%	312	5.75%	(0)	100.0%	1	0.95	-	0.1	-	0	-	0	(59)	(0.1)	-	0
2059	274	5.75%	274	5.75%	(0)	100.0%									(53)	(0.1)	-	0

Inputs	
Interest Assumption	5.75%
Exp allowance as % of ben	0.1%
Full Funding Cap	100%

Results	
Discount rate	5.45%
PV of Employer Contribs	2,915

5. Reflect reasonable interest rate assumption: \$2.616 billion

(dollars below shown in millions)

Fiscal Year End	Liability		Assets, Funded Ratios				Development of the ADC								Cash Flows			
	Liability	Interest Assumption	Assets	Return on Assets	UAAL	Funded Ratio	Amort Years	Annuity Factor	Normal Cost	Expense Allowance	Amort pymt	Int	Memb Cont	ADC	Benefit Payments	Expense Allowance	Member Contrib	Employer Contrib
2017	3,839	6.30%	1,226		2,612	31.9%	23	11.98	-	0.3	218	7	(25)	200				
2018	3,790	6.30%	1,147	6.30%	2,644	30.3%	22	11.73	-	0.3	225	7	-	233	(280)	(0.3)	-	130
2019	3,736	6.30%	1,132	6.30%	2,604	30.3%	21	11.47	-	0.3	227	7	-	234	(283)	(0.3)	-	200
2020	3,677	6.30%	1,148	6.30%	2,528	31.2%	20	11.20	-	0.3	226	7	-	233	(285)	(0.3)	-	233
2021	3,612	6.30%	1,165	6.30%	2,446	32.3%	19	10.90	-	0.3	224	7	-	232	(287)	(0.3)	-	234
2022	3,542	6.30%	1,181	6.30%	2,361	33.4%	18	10.59	-	0.3	223	7	-	230	(287)	(0.3)	-	233
2023	3,467	6.30%	1,196	6.30%	2,271	34.5%	17	10.25	-	0.3	221	7	-	229	(288)	(0.3)	-	232
2024	3,384	6.30%	1,207	6.30%	2,177	35.7%	16	9.90	-	0.3	220	7	-	227	(291)	(0.3)	-	230
2025	3,298	6.30%	1,219	6.30%	2,079	37.0%	15	9.52	-	0.3	218	7	-	225	(289)	(0.3)	-	229
2026	3,204	6.30%	1,228	6.30%	1,976	38.3%	14	9.12	-	0.3	217	7	-	224	(291)	(0.3)	-	227
2027	3,109	6.30%	1,241	6.30%	1,868	39.9%	13	8.70	-	0.3	215	7	-	222	(287)	(0.3)	-	225
2028	3,007	6.30%	1,251	6.30%	1,756	41.6%	12	8.25	-	0.3	213	7	-	220	(288)	(0.3)	-	224
2029	2,898	6.30%	1,260	6.30%	1,638	43.5%	11	7.77	-	0.3	211	7	-	218	(288)	(0.3)	-	222
2030	2,789	6.30%	1,274	6.30%	1,515	45.7%	10	7.26	-	0.3	209	6	-	216	(281)	(0.3)	-	220
2031	2,674	6.30%	1,288	6.30%	1,386	48.2%	9	6.71	-	0.3	206	6	-	213	(281)	(0.3)	-	218
2032	2,560	6.30%	1,308	6.30%	1,252	51.1%	8	6.14	-	0.3	204	6	-	211	(273)	(0.3)	-	216
2033	2,441	6.30%	1,330	6.30%	1,111	54.5%	7	5.52	-	0.3	201	6	-	208	(271)	(0.3)	-	213
2034	2,320	6.30%	1,356	6.30%	964	58.4%	6	4.87	-	0.3	198	6	-	204	(265)	(0.3)	-	211
2035	2,202	6.30%	1,391	6.30%	811	63.2%	5	4.18	-	0.3	194	6	-	200	(255)	(0.3)	-	208
2036	2,081	6.30%	1,429	6.30%	652	68.7%	4	3.44	-	0.2	189	6	-	195	(251)	(0.3)	-	204
2037	1,964	6.30%	1,477	6.30%	486	75.2%	3	2.66	-	0.2	183	6	-	189	(240)	(0.2)	-	200
2038	1,846	6.30%	1,530	6.30%	316	82.9%	2	1.83	-	0.2	173	5	-	179	(233)	(0.2)	-	195
2039	1,729	6.30%	1,588	6.30%	141	91.8%	1	0.94	-	0.2	150	5	-	155	(225)	(0.2)	-	189
2040	1,617	6.30%	1,618	6.30%	(0)	100.0%	1	0.94	-	0.2	-	0	-	0	(213)	(0.2)	-	146
2041	1,507	6.30%	1,507	6.30%	(0)	100.0%	1	0.94	-	0.2	-	0	-	0	(205)	(0.2)	-	0
2042	1,402	6.30%	1,403	6.30%	(0)	100.0%	1	0.94	-	0.2	-	0	-	0	(193)	(0.2)	-	0
2043	1,300	6.30%	1,300	6.30%	(0)	100.0%	1	0.94	-	0.2	-	0	-	0	(184)	(0.2)	-	0
2044	1,203	6.30%	1,203	6.30%	(0)	100.0%	1	0.94	-	0.2	-	0	-	0	(173)	(0.2)	-	0
2045	1,111	6.30%	1,111	6.30%	(0)	100.0%	1	0.94	-	0.2	-	0	-	0	(162)	(0.2)	-	0
2046	1,024	6.30%	1,024	6.30%	(0)	100.0%	1	0.94	-	0.1	-	0	-	0	(152)	(0.2)	-	0
2047	941	6.30%	941	6.30%	(0)	100.0%	1	0.94	-	0.1	-	0	-	0	(142)	(0.1)	-	0
2048	862	6.30%	862	6.30%	(0)	100.0%	1	0.94	-	0.1	-	0	-	0	(133)	(0.1)	-	0
2049	788	6.30%	789	6.30%	(0)	100.0%	1	0.94	-	0.1	-	0	-	0	(124)	(0.1)	-	0
2050	719	6.30%	719	6.30%	(0)	100.0%	1	0.94	-	0.1	-	0	-	0	(115)	(0.1)	-	0
2051	654	6.30%	654	6.30%	(0)	100.0%	1	0.94	-	0.1	-	0	-	0	(107)	(0.1)	-	0
2052	593	6.30%	593	6.30%	(0)	100.0%	1	0.94	-	0.1	-	0	-	0	(99)	(0.1)	-	0
2053	535	6.30%	535	6.30%	(0)	100.0%	1	0.94	-	0.1	-	0	-	0	(91)	(0.1)	-	0
2054	482	6.30%	482	6.30%	(0)	100.0%	1	0.94	-	0.1	-	0	-	0	(84)	(0.1)	-	0
2055	432	6.30%	432	6.30%	(0)	100.0%	1	0.94	-	0.1	-	0	-	0	(77)	(0.1)	-	0
2056	386	6.30%	386	6.30%	(0)	100.0%	1	0.94	-	0.1	-	0	-	0	(71)	(0.1)	-	0
2057	343	6.30%	344	6.30%	(0)	100.0%	1	0.94	-	0.1	-	0	-	0	(65)	(0.1)	-	0
2058	304	6.30%	304	6.30%	(0)	100.0%	1	0.94	-	0.1	-	0	-	0	(59)	(0.1)	-	0
2059	268	6.30%	268	6.30%	(0)	100.0%									(53)	(0.1)	-	0

Inputs	
Interest Assumption	6.30%
Exp allowance as % of ben	0.1%
Full Funding Cap	100%

Results	
Discount rate	6.30%
PV of Employer Contribs	2,616

Appendix E: Development of a Reasonable and Appropriate Interest Rate Assumption

I relied on the Horizon Survey of Capital Market Assumptions, 2017 Edition (“2017 Horizon Survey”) for the capital market assumptions underlying the expected return on assets assumption. The Horizon Survey is a survey of 35 investment advisors who provided forward-looking, expected risk and returns for different asset classes in which pension plans commonly invest. It is a source widely referenced by the public and multiemployer pension plan communities. ERS itself references use of surveys from Horizon its audited financial statements.⁹⁴ I have reviewed the information contained in the 2017 Horizon Survey and determined that it is appropriate to use for the purpose of this assignment.

Developing My Expected Return Assumption

The expected return assumption depends on a plan's asset allocation and should reflect a plan's target asset allocation. The following target asset allocation for ERS was reported as of June 30, 2017 by Asset Consulting Group.⁹⁵

Target Asset Allocation and Capital Market Assumptions

Asset Class	Target Allocation (%)
US Large Cap Equity	22%
US Small/Mid Cap Equity	10%
Non US Equity	20%
Global Long/Short Equity	8%
Global Private Equity	5%
Core Bonds	30%
Core Real Estate	5%
Total	100%

The 2017 Audited Financial Statements show that the Non US Equity can be further subdivided into an allocation of 15% to International Developed Equity and 5% to Emerging Market Equity.⁹⁶

I used the 2017 Horizon Survey⁹⁷ to develop the expected return assumption for the ERS as of June 30, 2017, presuming an ongoing reference to the asset allocation shown above.

⁹⁴ ⁹⁴ PREPA Independent Auditors' Report, Audited Financial Statements, Required Supplementary Information and Supplemental Schedules, for the year ended June 30, 2019, page 73.

⁹⁵ Asset Consulting Group, June 30, 2017.

⁹⁶ PREPA Independent Auditors' Report, Audited Financial Statements, Required Supplementary Information and Supplemental Schedules, for the year ended June 30, 2017, page 51.

⁹⁷ See https://www.horizonactuarial.com/uploads/3/0/4/9/30499196/horizon_cma_survey_2017_v0822.pdf, accessed on April 21, 2023.

The 2017 Horizon Survey did not show return expectations for Global Long/Short Equity. I assumed that this asset class has the same characteristics as US Large Cap Equity.

	Arithmetic Return	Geometric Return	Standard Deviation
ERS Portfolio	6.95%	6.30% ⁹⁹	11.82%

⁹⁸ See 2017 Horizon Survey, page 13.

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Appendix F: Development of Reasonable and Appropriate Recovery Cash Flows

Methodology

The recovery scenario modeled is based on analyzing the benefits earned through June 30, 2017 but payable according to the provisions of the Plan of Adjustment as stated in the Disclosure Statement. The provisions generally call for a change in the benefits eligibility for active members and a change in the pension increase for retirees effective upon confirmation of the Plan of Adjustment (which is assumed to be June 30, 2023 in the modeling). These provisions are described in Exhibit G of the March 1, 2023 Disclosure Statement.

Assets

Projecting Assets to June 30, 2022

The following are the steps to develop the starting assets as of June 30, 2022:

Item	Description	Value (\$ millions)
1	March 30, 2022 assets ¹⁰⁰	\$538.6
2	Expected PREPA contributions April 1, 2022 – June 30, 2022	\$12
3	Expected Benefit payments April 1, 2022 – June 30, 2022 ¹⁰¹	(\$72)
4	June 30, 2022 assets (1) + (2) + (3)	\$478.6

The investment return from March 30, 2022 to June 30, 2022 was not available. Any investment return between March 30, 2022 and June 30, 2022 will impact the figures above.

Accounting for Member Contributions with Interest

The assets above are assumed to include employee contributions since June 30, 2017 which in principle are designated to fund benefit accruals after June 30, 2017. Because the perspective of the recovery is to analyze “the recovery of the claim,” both post-June 30, 2017 pension accruals and member contributions have been excluded.

¹⁰⁰ Exhibit 70 of the 2022 Certified Fiscal Plan for the Puerto Rico Electric Power Authority As certified by the Financial Oversight and Management Board for Puerto Rico on June 28, 2022

¹⁰¹ Ibid, Three times the monthly amount.

Administrative fee load

PREPA Contributions

Consistent with the PREPA Pension Claim and Recovery, the following PREPA contributions were used for Fiscal Years 2018 to 2023¹¹²:

Fiscal Year	Amount (\$ millions)
2018	82.2
2019	75.3
2020	73.7
2021	72.4
2022	26.7
2023	18.3

PREPA contributions for Fiscal Years 2024 to 2059 are set each year such that 4 months' worth of benefit payments remain in the plan assets at the end of each fiscal year.

109 Ibid.

¹¹⁰ Asset Consulting Group, June 30, 2022 report.

¹¹¹ PREPA Pension Claim and Recovery, Appendix B.

¹¹² Ibid, Claim and Recovery as described in Appendix E.

Projections

Reflecting Pension Recovery Corrections - Discounting at 3.58%

Fiscal Year End	Assets			Cash Flows			
	Investable Assets	Investable Assets Return	Illiquid Assets	Benefit Payments	Expense Allowance	Illiquid Redemption	PREPA Contribution
2017							
2018				(280)	(0.6)	-	82.2
2019				(282)	(0.6)	-	75.3
2020				(282)	(0.6)	-	73.7
2021				(283)	(0.6)	-	72.4
2022	250.5			(305)	(0.6)	-	26.7
2023	11	0%	156.0	(257)	(0.5)	-	18.3
2024	118	2%	148	(355)	(0.7)	18	444
2025	96	2%	141	(288)	(0.6)	17	248
2026	97	2%	134	(291)	(0.6)	16	274
2027	91	2%	127	(274)	(0.5)	15	253
2028	92	2%	121	(276)	(0.6)	14	260
2029	90	2%	115	(271)	(0.5)	14	254
2030	84	2%	109	(251)	(0.5)	13	230
2031	84	2%	103	(253)	(0.5)	12	241
2032	78	2%	98	(233)	(0.5)	12	214
2033	78	2%	93	(235)	(0.5)	11	224
2034	75	2%	89	(226)	(0.5)	10	211
2035	69	2%	84	(206)	(0.4)	10	188
2036	69	2%	80	(206)	(0.4)	9	195
2037	62	2%	76	(187)	(0.4)	9	170
2038	62	2%	72	(186)	(0.4)	9	176
2039	59	2%	69	(176)	(0.4)	8	164
2040	53	2%	65	(158)	(0.3)	8	143
2041	51	2%	62	(153)	(0.3)	7	143
2042	46	2%	59	(139)	(0.3)	7	126
2043	45	2%	56	(134)	(0.3)	7	125
2044	41	2%	53	(122)	(0.2)	6	111
2045	37	2%	50	(112)	(0.2)	6	102
2046	35	2%	48	(105)	(0.2)	6	96
2047	32	2%	46	(96)	(0.2)	5	87
2048	30	2%	43	(89)	(0.2)	5	81
2049	27	2%	41	(81)	(0.2)	5	73
2050	25	2%	39	(74)	(0.1)	5	67
2051	22	2%	37	(67)	(0.1)	4	61
2052	20	2%	35	(61)	(0.1)	4	55
2053	19	2%	33	(56)	(0.1)	4	50
2054	17	2%	32	(50)	(0.1)	4	44
2055	15	2%	30	(45)	(0.1)	4	40
2056	14	2%	29	(41)	(0.1)	3	35
2057	12	2%	27	(36)	(0.1)	3	31
2058	11	2%	26	(32)	(0.1)	3	28
2059	10	2%	25	(29)	(0.1)	3	24

Inputs	
Asset Return	2%
Expense Allowance % BP	0.2%
Internally Managed Funds	
Annual Interest	6.24%
Redemption	10.58%
Reserve (Months BPs)	4
Shift BPs from FY2023 to FY2024	51

Results	
Discount Rate	3.58%
Present Value	3,281

Reflecting Pension Recovery Corrections - Discounting at 5.45%

	Assets			Cash Flows				
Fiscal Year End	Investable Assets	Investable Assets Return	Illiquid Assets	Benefit Payments	Expense Allowance	Illiquid Redemption	PREPA Contribution	
2017								
2018				(280)	(0.6)	-	82.2	
2019				(282)	(0.6)	-	75.3	
2020				(282)	(0.6)	-	73.7	
2021				(283)	(0.6)	-	72.4	
2022	250.5			(305)	(0.6)	-	26.7	
2023	11	0%	156.0	(257)	(0.5)	-	18.3	
2024	118	2%	148	(355)	(0.7)	18	444	
2025	96	2%	141	(288)	(0.6)	17	248	
2026	97	2%	134	(291)	(0.6)	16	274	
2027	91	2%	127	(274)	(0.5)	15	253	
2028	92	2%	121	(276)	(0.6)	14	260	
2029	90	2%	115	(271)	(0.5)	14	254	
2030	84	2%	109	(251)	(0.5)	13	230	
2031	84	2%	103	(253)	(0.5)	12	241	
2032	78	2%	98	(233)	(0.5)	12	214	
2033	78	2%	93	(235)	(0.5)	11	224	
2034	75	2%	89	(226)	(0.5)	10	211	
2035	69	2%	84	(206)	(0.4)	10	188	
2036	69	2%	80	(206)	(0.4)	9	195	
2037	62	2%	76	(187)	(0.4)	9	170	
2038	62	2%	72	(186)	(0.4)	9	176	
2039	59	2%	69	(176)	(0.4)	8	164	
2040	53	2%	65	(158)	(0.3)	8	143	
2041	51	2%	62	(153)	(0.3)	7	143	
2042	46	2%	59	(139)	(0.3)	7	126	
2043	45	2%	56	(134)	(0.3)	7	125	
2044	41	2%	53	(122)	(0.2)	6	111	
2045	37	2%	50	(112)	(0.2)	6	102	
2046	35	2%	48	(105)	(0.2)	6	96	
2047	32	2%	46	(96)	(0.2)	5	87	
2048	30	2%	43	(89)	(0.2)	5	81	
2049	27	2%	41	(81)	(0.2)	5	73	
2050	25	2%	39	(74)	(0.1)	5	67	
2051	22	2%	37	(67)	(0.1)	4	61	
2052	20	2%	35	(61)	(0.1)	4	55	
2053	19	2%	33	(56)	(0.1)	4	50	
2054	17	2%	32	(50)	(0.1)	4	44	
2055	15	2%	30	(45)	(0.1)	4	40	
2056	14	2%	29	(41)	(0.1)	3	35	
2057	12	2%	27	(36)	(0.1)	3	31	
2058	11	2%	26	(32)	(0.1)	3	28	
2059	10	2%	25	(29)	(0.1)	3	24	

Reflecting Pension Recovery Corrections - Discounting at 6.30%

Fiscal Year End	Assets			Cash Flows			
	Investable Assets	Investable Assets Return	Illiquid Assets	Benefit Payments	Expense Allowance	Illiquid Redemption	PREPA Contribution
2017							
2018				(280)	(0.6)	-	82.2
2019				(282)	(0.6)	-	75.3
2020				(282)	(0.6)	-	73.7
2021				(283)	(0.6)	-	72.4
2022	250.5			(305)	(0.6)	-	26.7
2023	11	0%	156.0	(257)	(0.5)	-	18.3
2024	118	2%	148	(355)	(0.7)	18	444
2025	96	2%	141	(288)	(0.6)	17	248
2026	97	2%	134	(291)	(0.6)	16	274
2027	91	2%	127	(274)	(0.5)	15	253
2028	92	2%	121	(276)	(0.6)	14	260
2029	90	2%	115	(271)	(0.5)	14	254
2030	84	2%	109	(251)	(0.5)	13	230
2031	84	2%	103	(253)	(0.5)	12	241
2032	78	2%	98	(233)	(0.5)	12	214
2033	78	2%	93	(235)	(0.5)	11	224
2034	75	2%	89	(226)	(0.5)	10	211
2035	69	2%	84	(206)	(0.4)	10	188
2036	69	2%	80	(206)	(0.4)	9	195
2037	62	2%	76	(187)	(0.4)	9	170
2038	62	2%	72	(186)	(0.4)	9	176
2039	59	2%	69	(176)	(0.4)	8	164
2040	53	2%	65	(158)	(0.3)	8	143
2041	51	2%	62	(153)	(0.3)	7	143
2042	46	2%	59	(139)	(0.3)	7	126
2043	45	2%	56	(134)	(0.3)	7	125
2044	41	2%	53	(122)	(0.2)	6	111
2045	37	2%	50	(112)	(0.2)	6	102
2046	35	2%	48	(105)	(0.2)	6	96
2047	32	2%	46	(96)	(0.2)	5	87
2048	30	2%	43	(89)	(0.2)	5	81
2049	27	2%	41	(81)	(0.2)	5	73
2050	25	2%	39	(74)	(0.1)	5	67
2051	22	2%	37	(67)	(0.1)	4	61
2052	20	2%	35	(61)	(0.1)	4	55
2053	19	2%	33	(56)	(0.1)	4	50
2054	17	2%	32	(50)	(0.1)	4	44
2055	15	2%	30	(45)	(0.1)	4	40
2056	14	2%	29	(41)	(0.1)	3	35
2057	12	2%	27	(36)	(0.1)	3	31
2058	11	2%	26	(32)	(0.1)	3	28
2059	10	2%	25	(29)	(0.1)	3	24

Appendix G: Participant Loan Repayment Schedule

	Oversight Board (no interest)			This Report 6.24% interest			
	Balance		Cash Flow to	Balance		Cash Flow to	
Fiscal Year	BOY	EOY	PREPA ERS	BOY	EOY	PREPA ERS	Increase in Cash Flow
2017							
2018			-			-	-
2019			-			-	-
2020			-			-	-
2021			-			-	-
2022			-			-	-
2023	156.0	156.0	-	156.0	165.7	-	-
2024	148.2	148.2	7.8	148.2	157.4	17.5	9.7
2025	140.8	140.8	7.4	140.8	149.6	16.7	9.2
2026	133.8	133.7	7.0	133.7	142.1	15.8	8.8
2027	127.1	127.1	6.7	127.1	135.0	15.0	8.3
2028	120.7	120.7	6.4	120.7	128.2	14.3	7.9
2029	114.7	114.7	6.0	114.7	121.8	13.6	7.5
2030	108.9	108.9	5.7	108.9	115.7	12.9	7.2
2031	103.5	103.5	5.4	103.5	109.9	12.2	6.8
2032	98.3	98.3	5.2	98.3	104.5	11.6	6.5
2033	93.4	93.4	4.9	93.4	99.2	11.1	6.1
2034	88.7	88.7	4.7	88.7	94.3	10.5	5.8
2035	84.3	84.3	4.4	84.3	89.6	10.0	5.5
2036	80.1	80.1	4.2	80.1	85.1	9.5	5.3
2037	76.1	76.1	4.0	76.1	80.8	9.0	5.0
2038	72.3	72.3	3.8	72.3	76.8	8.6	4.7
2039	68.7	68.7	3.6	68.7	72.9	8.1	4.5
2040	65.2	65.2	3.4	65.2	69.3	7.7	4.3
2041	62.0	62.0	3.3	62.0	65.8	7.3	4.1
2042	58.9	58.9	3.1	58.9	62.5	7.0	3.9
2043	55.9	55.9	2.9	55.9	59.4	6.6	3.7
2044	53.1	53.1	2.8	53.1	56.4	6.3	3.5
2045	50.5	50.5	2.7	50.5	53.6	6.0	3.3
2046	47.9	47.9	2.5	47.9	50.9	5.7	3.2
2047	45.6	45.5	2.4	45.5	48.4	5.4	3.0
2048	43.3	43.3	2.3	43.3	46.0	5.1	2.8
2049	41.1	41.1	2.2	41.1	43.7	4.9	2.7
2050	39.1	39.1	2.1	39.1	41.5	4.6	2.6
2051	37.1	37.1	2.0	37.1	39.4	4.4	2.4
2052	35.2	35.2	1.9	35.2	37.4	4.2	2.3
2053	33.5	33.5	1.8	33.5	35.6	4.0	2.2
2054	31.8	31.8	1.7	31.8	33.8	3.8	2.1
2055	30.2	30.2	1.6	30.2	32.1	3.6	2.0
2056	28.7	28.7	1.5	28.7	30.5	3.4	1.9
2057	27.3	27.3	1.4	27.3	29.0	3.2	1.8
2058	25.9	25.9	1.4	25.9	27.5	3.1	1.7
2059	24.6	24.6	1.3	24.6	26.1	2.9	1.6

Inputs	
5%	Old Maturation Rate
10.58%	New Maturation Rate
6.24%	Return on loans

Appendix H: Reliance on Models

This appendix describes our reliance on both external (to The Terry Group) actuarial software as well as internally developed models in developing the actuarial findings central to the opinions offered in this report.¹¹³

The Terry Group uses ProVal, a third-party software program, to assist with actuarial valuations and projections related to pension plans. The model is intended to calculate the liabilities associated with the provisions of the plan using data and assumptions as of the measurement date under the specified funding methods.

The output from ProVal is used as input to internally developed models, usually developed using Microsoft Excel, that apply applicable funding methods and policies to the derived liabilities and other inputs, such as plan assets and contributions, to generate various actuarial findings upon which my opinions are based.

The Terry Group has an extensive review process in which the results of the liability calculations are checked using detailed sample life output. Significant deviations from expectations are investigated. Other funding outputs and the internal models are similarly reviewed in detail and at a higher level for accuracy, reasonability, and consistency with prior results. The Terry Group also reviews ProVal when significant software changes or upgrades are made. This review is performed by experts within The Terry Group who are familiar with applicable funding methods, as well as the manner in which the model generates its output. If significant changes are made to the internal models, extra checking and review are completed.

¹¹³ Actuarial Standard of Practice No. 56, Modeling, provides guidance to actuaries when performing actuarial services with respect to designing, developing, selecting, modifying, using, reviewing, or evaluating models. Our use of models in developing the actuarial findings supporting the opinions offered in this report is in compliance with the guidance provided in ASOP no. 56.